8 TIPS ON NEGOTIATING

Nation's Business®

THE SMALL BUSINESS ADVISER ■ PUBLISHED BY U.S. CHAMBER OF COMMERCE

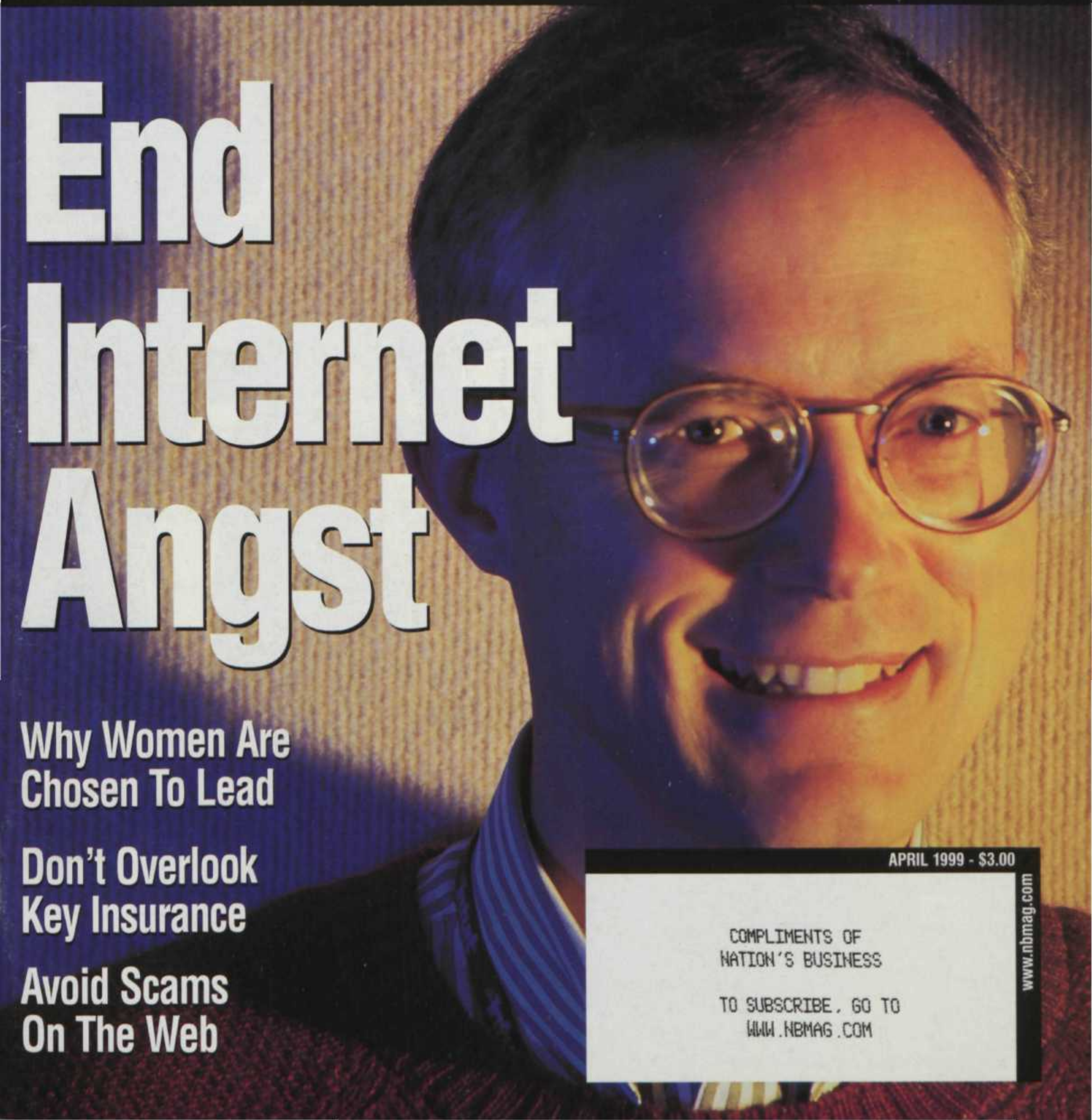

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PHOTO: ©LORRAINE C. PAROW—MERCURY PICTURES

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PHOTO: ©LINDA SUE SCOTT

The restaurateur: Biba Caggiano's menu is authentic Italian cuisine prepared just as her mother used to make it.

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By the time you start negotiations on a business matter, you should be acquainted with the other party and know your bottom-line objective.

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ILLUSTRATION: WILLIAM T. COULTER

Editor's Note

Challenges That Threaten Business Survival

As this issue goes to press, an exciting process is unfolding. Judges from Arthur Andersen LLP, the international accounting and consulting firm, are poring over applications from small companies nationwide to decide which of them will be named Blue Chip Enterprises for 1999.

The annual Blue Chip competition honors companies with five to 400 employees that have overcome significant challenges and emerged stronger.

Central to the vision behind the program is the sharing of the honorees' experiences with other business owners, particularly those who may be facing similar problems.

The competition is sponsored by insurance firm MassMutual—The Blue Chip Co., *Nation's Business*, and the U.S. Chamber of Commerce.

The state honorees will be listed in next month's issue. In the June issue, Senior Editor Michael Barrier will tell the stories of how the national winners overcame the challenges they faced. These are sure to be stories you won't want to miss.

This month's Cover Story, written by technology editor Tim McCollum, aims to help entrepreneurs meet the new challenges created by one of the most pervasive aspects of today's business environment, the Internet.

The story, "End Your Internet Anxieties Now," details how one company, Intuit Inc., restructured itself in response to this new business avenue, and it relates how entrepreneurs are rethinking a range of industries to capitalize on the Internet.

If your company is grappling with new competition spawned by the Internet, we hope this story helps you. It begins on Page 18.

Mary Y. McElveen
Editor

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Letters

Social Security Issues Deserve A High Profile

Thank you for your Cover Story "Small Firms' Stake In Social Security Reform" [March]. I believe that the big lie of Social Security belongs on the cover of not only *Nation's Business* but every publication.

I am part owner of a small firm (22 employees) that paid $132,000 in Social Security and Medicare taxes last year. Between 1974 and this year, the taxable wage base on which I have paid Social Security taxes has been raised by 550 percent and my Social Security taxes have gone up by 689 percent.

Social Security defies every rule that is put on private retirement plans, and it is outrageous that politicians take credit for using excess Social Security money to "balance" the budget.

Reduce benefits now. End cost-of-living adjustments. Reduce and cap tax rates. Take the "extra" money away from politicians and make them deal with the real budget deficit.

In addition, allow workers to put most of their retirement money into real investments. Other countries do it, and we can, too.

Robert H. Andrews
President
Jordan & Andrews Consultants and Actuaries
Santa Rosa, Calif.

An Investment Alternative

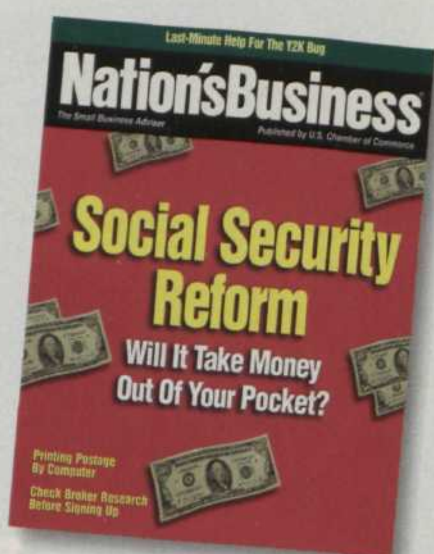
I found your Cover Story on Social Security reform to be very informative.

Most of the "reforms" being floated for fixing the system are unattractive. Raising the eligibility age is an extraordinarily cynical solution, relying as it does on a large number of taxpayers dying before they ever collect a penny. And, as an accountant for a group of small businesses, the prospect of administering individual Social Security pension accounts is terrifying.

Since something needs to be done, the most appealing—no, make that imperative—solution is to invest the Social Security trust fund assets outside the federal government.

There seems to be a general fear of investment in the stock market, so why not put the money into nonfederal government obligations?

States, counties, cities, school districts, port authorities, park districts, and a host of other public and semipublic taxing entities issue billions of dollars in debt each year.



If they could borrow directly from the Social Security trust fund, the fund could earn more, the borrowers could pay less (there would be no underwriting or bond-marketing costs), and the money would do good in the real world.

David J. Volz
Vice President
Restaurant Accounting, Inc.
Sandusky, Ohio

Wake Up, People

In reference to your Cover Story in March, I believe that Social Security should be eliminated on a gradual basis, starting now.

Do the American people understand that the government thinks we are too stupid to invest our own money? Wake up people, and let's take personal responsibility for our own lives and our own money while using common sense.

Christopher P. Zubyk
Malvern, Pa.

Is The Trust Fund A Myth?

Regarding your Cover Story on Social Security reform, a truly informative article would have told readers in the opening paragraph that in actuality there is no Social Security trust fund and that the only hope for those who are near to drawing Social Security is the health of the productive sector that will provide the funds that flow to them. And the keys to the health of the productive sector—and consequently of Social Security—are lower taxes and fewer regulations.

Robert L. Ferluga
Kansas City, Kan.

Flight Attendants Could Make Room For Passengers

As a frequent traveler, I read with great interest "Business Fliers Cope With Carry-On Rules" [March].

I agree with the Federal Aviation Administration that the size and number of bags that people attempt to bring on board a flight have become a problem that must be dealt with. Safety is of paramount concern in commercial aviation, and I have accepted that I must check some bags that I previously could have carried aboard.

I would like to offer one other possible solution to the airline industry. To make additional room on planes, flight crews should have to check their bags. That would free up more space in the overhead bins.

I am all for restricting the size and quantity of bags allowed on a plane. But let's look at all the culprits, not just the paying customers.

Kevin P. McAuliffe
Park Ridge, N.J.

An Arbitration Program For Year 2000 Disputes

"Trying To Head Off The Other Y2K Problem" [Editorial, February] was well-timed and well-said. Your calls for legal reform and petitions to Congress may be of value to business owners who must work under a cloud of legal activism and opportunism.

But there is another aspect to the situation. It may be of interest to your readers to know that the American Arbitration Association is two steps ahead of the problem.

The association has unveiled a fast-track program for technology and other disputes related to year 2000 issues, and it has established a National Technology Panel of 350 technical and legal experts to hear and resolve such disputes.

More details on the program can be found at the association's World Wide Web site, at *www.adr.org*, or by calling 1-800-778-7879.

I encourage business people who are concerned about prompt, fair resolution of issues related to Y2K to contact the association and to consider including an arbitration clause in any contracts. It is also possible for parties under contract to agree to arbitration or mediation even if the contract does not contain such a clause.

James R. Gard
Member, Panel of Arbitrators
American Arbitration Association
Durham, N.C.

Time To Take A Stand On Sexual Harassment

I was very pleased to read "Sexual Harassment" [Cover Story, December], which informed your readers about a big issue that is largely being neglected.

This article has helped those who have been sexually harassed see that they are not alone and can do something about it.

I feel that it is time for both employers and employees to take a stand by punishing those who commit sexual harassment. Maybe with punishment, people will think twice about their actions.

Heather Crotty
San Antonio

Lower Payout Rate Means More For Charity

"When It's Better To Give *And* Receive" [Small Business Financial Adviser, March] gives an example of a charitable remainder trust established by a married couple. However, the example suggests an opportunity lost.

The assets in a charitable remainder trust accumulate tax-free. Many donors can reap the benefits of that tax-free accumulation by establishing a charitable remainder unitrust with a low payout rate. By so doing, they can give far more to charity than they give up in income.

Turning to the example in the article, the couple would receive $60,000 less income over 26 years from a 6 percent unitrust than from an 8 percent unitrust. The couple, however, would leave $670,000 more to charity and their charitable deduction would be $85,000 larger.

When shown the options, most donors would choose to give more back to the community.

Todd D. Mayo, Associate
Winer and Bennett, Attorneys at Law
Nashua, N.H.

Paying In Advance For Legal Assistance

I enjoyed your article "How You Can Corral Legal Costs" [February], but I was disappointed that it made no mention of prepaid legal plans.

At Pre-Paid Legal Services, Inc., we offer an excellent plan for small businesses at a nominal cost. Our clients get a highly rated law firm available to them for a wide variety of services, usually at no charge beyond the monthly fee. I feel certain that your readership would have benefited from our inclusion as a cost-effective alternative.

David Hollands, Independent Associate
Pre-Paid Legal Services, Inc.
Plano, Texas

[Editor's Note: While our February article focused on specialized legal help for small companies, we did cover the topic of prepaid legal services in "Legal-Services Plans For Small Firms," Small Business Financial Adviser, September].

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ENTREPRENEUR'S NOTEBOOK

By Joe Sniderman

When Good Hiring Is A Challenge

Drive down just about any commercial roadway in America today and you're likely to see signs proclaiming that "Business Is Great—Now Hiring."

In general, help-wanted signs are a good thing. After all, when a community's help-wanted index is high, so is its level of economic activity. But there's a hidden truth behind these signs that many business owners are painfully aware of these days: Even if business weren't great, they would still be looking to hire additional high-quality employees.

Whether a company is looking for seasonal, part-time, or full-time help, today's low unemployment rates have made it hard to find reliable workers.

My contracting firm, Services Galore, Inc., in recent years has faced three major hiring challenges: finding skilled workers to replace those who retire, finding seasonal employees, and retaining the workers we have in an industry in which on-site headhunting is routine.

Here are some strategies that my partner—Michael Gurevitz, the company's vice president—and I have used that could help your company meet its employment goals:

Maintain basic hiring practices, regardless of the job market. Don't short-change your firm by giving in to the feeling that you must take somebody—anybody—right away. Even in a tight labor market, there's no substitute for solid hiring practices such as checking references (two or three employers back) and school records to assess the reliability of the job candidate.

Similarly, don't compromise your standards on safety or workmanship. Even if you're extremely short-staffed, that's no excuse for hiring an inexperienced worker who might be an injury risk. Likewise, nothing is as valuable as your company's good name, so don't take on a job if you can't do it right and on schedule because you lack workers. Turning away customers is far better than angering them.

Joe Sniderman is president of Services Galore, Inc., in Columbus, Ohio. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

PHOTO: ©JIM CALLAWAY

At Services Galore, Inc., *Joe Sniderman is finding ways to attract and keep reliable workers.*

Start looking in new places. Don't look only for new ways to attract workers; also look for new sources of employees. In my company's case, that turned out to be vocational high schools. I find seasonal and part-time workers who have developed some of the skills my firm needs, and the students get to put to use what they've learned even as they acquire new skills.

Labor Day doesn't have to be the end. Rather than viewing seasonal student workers as short-timers just passing through, create an environment in which they are treated as potential full-time employees. Making this approach clear when you're seeking new student workers can be a valuable recruiting tool.

Put the word out in your own shop. You can get your staff to help find good new employees by offering referral bonuses and by expressing your willingness to hire the relatives and friends of proven workers.

Focus your efforts. In a tight labor market, even successful areas of your business can become more of a drain on resources than they are worth.

For example, we recently discovered through an accounting evaluation that we would be better off subcontracting some of the work done by our carpentry shop, even though the work was profitable. When skilled personnel are in limited supply, a firm must concentrate on doing the types of work that have the greatest profit margins.

Treat your workers like family. There are many ways to make employees' jobs more attractive and help keep them with the company. Besides paying competitive wages, you can offer flexible hours and good benefits.

For my company, perhaps the best way has been to create a sense of family. Our workers know that we care about them because we help them on and outside the job, even down to holding the notes on auto loans for some employees.

Entrepreneurs should put as much creativity and energy into establishing and maintaining a motivated and productive staff as they do into marketing and business development. That's because the quality of your work force, especially in today's tight job market, is equally crucial to your company's success. NB

WHAT I LEARNED

With unemployment low and skilled workers hard to find, a company owner must be creative to find and retain top workers.

Congratulations!

The 1999 Blue Chip Honorees Have Been Selected.

The Blue Chip Enterprise Initiative® recognizes businesses that have overcome adversities and emerged stronger. Since 1990, nearly 1,800 businesses have been honored.

MassMutual—The Blue Chip Company, the U.S. Chamber of Commerce, and *Nation's Business* are proud sponsors of this national award program.

This year's honorees come from a variety of businesses, each with a fascinating story of success. Look for the designees from your state in the May issue of *Nation's Business.* Just think, your company could be a Blue Chip Enterprise Initiative 2000 honoree! Any for-profit business that has operated continuously for at least three years and employs between 5 and 400 persons is eligible for the Y2K competition.

For more information about the program, look for the Blue Chip application in the June issue of *Nation's Business,* visit the *Nation's Business* Web site at www.nbmag.com, contact your local MassMutual agent, or call 1-800-FOR-BCEI.

Nation'sBusiness
The Small Business Adviser

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Dateline: Washington

Business news in brief from the nation's capital.

TAXES

Small-Business Tax Relief Sought As Debate Begins

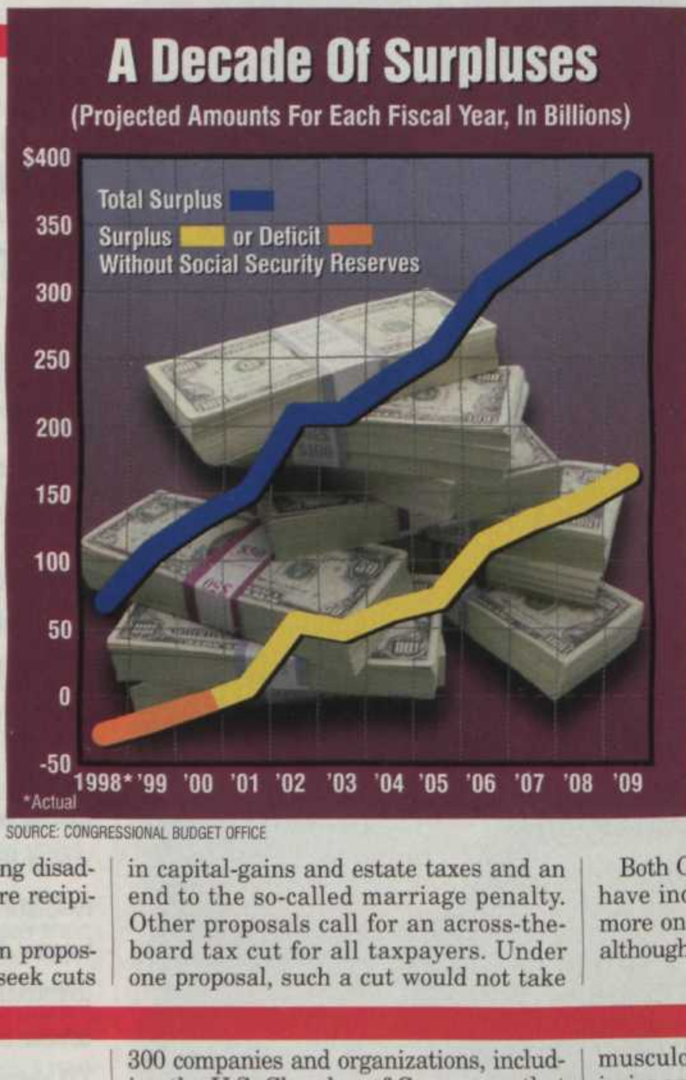
Efforts to win tax relief for small businesses are finally under way after a slow start in the new Congress, but it's still unclear exactly what might be in any final tax-cut bill.

Business groups, including the U.S. Chamber of Commerce, are pushing hard for broad-based tax relief along with specific cuts to maintain economic growth.

The U.S. Chamber, for example, is calling for reduction or repeal of the capital-gains tax, the estate and gift tax, and the alternative minimum tax for business. It also advocates a speedup in the phase-in of full deductibility of medical-insurance costs for the self-employed.

The Chamber also wants extension of various tax credits important to small companies, including those for research and experimentation and for hiring disadvantaged individuals and welfare recipients.

Among the many tax-reduction proposals in Congress are those that seek cuts in capital-gains and estate taxes and an end to the so-called marriage penalty. Other proposals call for an across-the-board tax cut for all taxpayers. Under one proposal, such a cut would not take effect until there was a federal surplus that did not include Social Security reserves.



SOURCE: CONGRESSIONAL BUDGET OFFICE

President Clinton has his own plan to use the budget surplus for shoring up Social Security and Medicare, with other portions going for individual savings accounts for all Americans and new spending programs. But in late February he indicated that he might support some targeted tax cuts if they didn't interfere with bolstering Social Security.

Meanwhile, GOP leaders in early March unveiled a plan to cordon off Social Security surpluses so they could not be used for tax cuts or new spending. Indeed, the amount available for tax cuts is linked to efforts to set aside a major portion of the overall budget surplus for Social Security (see the chart), as both the White House and GOP lawmakers strive to be seen as protectors of Social Security funds.

Both GOP leaders and the White House have indicated that they want to spend more on national defense and education, although they differ on some priorities.

—James Worsham

REGULATION

Business Blasts OSHA's Proposed Ergonomics Rules

Business is criticizing the U.S. Occupational Safety and Health Administration's efforts to issue new ergonomics regulations before completion of a congressionally mandated study on ergonomics.

The new rules would allow OSHA inspectors to impose penalties on employers for failing to find and fix ergonomic hazards.

"Any ergonomic regulation must be based on sound science," says Robb MacKie, vice president for government relations at the American Bakers Association. "There is no consensus in the medical and scientific communities as to the clear causes and remedies for repetitive-stress injuries."

The bakers group is one of more than 300 companies and organizations, including the U.S. Chamber of Commerce, that have formed the National Coalition on Ergonomics, which opposes the proposal.

OSHA has moved ahead with a draft proposal even though the National Academy of Sciences is 18 to 24 months away from completing its study on whether there is scientific evidence to link work activities and musculoskeletal disorders such as carpal-tunnel syndrome and tendinitis.

The coalition is backing a bill introduced by Rep. Roy Blunt, R-Mo., with bipartisan co-sponsorship, that would prohibit OSHA from issuing an ergonomics rule until the study is completed. The agency is planning to issue a final regulation in early 2000.

OSHA contends that certain job tasks, including those involving repetitive motions, heavy lifting, and vibrations, cause musculoskeletal or repetitive-stress injuries and illnesses.

In the draft proposal, which was released in February, OSHA states that "work-related musculoskeletal disorders" account for more than 34 percent of all injuries and illnesses that lead to lost workdays.

The proposed new standards would apply to all companies with manufacturing jobs, to those where "manual handling" occurs, and to those where a musculoskeletal injury or illness has been reported.

The regulations would require covered businesses to identify and provide information on ergonomic hazards to employees and provide medical management to workers who developed musculoskeletal disorders. Employers would also be required to redesign workplaces, employees' job tasks, or both.

—David Warner

CHART: KATHLEEN VETTER

LEGISLATION

House, Senate Move Quickly On Small-Business Measures

Small-business legislation is off to a fast start in the new Congress.

Three measures—to reduce federal paperwork requirements on small firms and free up funds for loans to entrepreneurs and expanding small businesses—passed the House in early February.

PHOTO: T. MICHAEL KEZA

The Senate, which spent most of January and February on President Clinton's impeachment trial, passed a measure to give small businesses some aid in solving their year 2000 computer problems.

The early passage of bills dealing with small-business issues followed action by the House and Senate small-business committees, both of which also plan this year to review U.S. Small Business Administration programs, which are up for reauthorization, to see if they are the most cost-effective means of helping small companies.

"Small businesses are the proverbial little guys fighting the federal bureaucracy. I am more committed than ever to fight to see that Congress is helping, not hindering, the nation's small businesses," says Sen. Christopher S. "Kit" Bond, R-Mo., chairman of the Senate Small Business Committee.

Rep. James Talent, R-Mo., chairman of the House Small Business Committee, adds: "Congress has taken important strides toward putting the government back on the side of small business, but we can't relent."

Measures approved by the House include:

- The Paperwork Elimination Act, designed to reduce the amount of paperwork the federal government demands of small firms and to allow them to file paperwork electronically, on a 413-0 vote on Feb. 9.
- The Microloan Technical Corrections Act, which makes changes in the SBA's microloan program for very small loans to prospective small-business owners. It was approved on a 411-4 vote on Feb. 9.
- The Small Business Investment Company (SBIC) Technical Corrections Act. Approved on a 402-2 vote on Feb. 2, it would expand the ability of SBICs, which provide equity capital and long-term loans to small businesses, to offer financing. A similar bill has been approved by the Senate panel.

The Senate unanimously approved on March 2 a committee-approved bill that would authorize the SBA to provide eligible businesses loans to help finance computer repairs to fix year 2000 problems. The House panel was expected to take up the same bill in March.

Meanwhile, efforts to rein in government mandates on business got a boost with the House passage Feb. 10—on a 274-149 vote—of the Mandates Information Act, which would require the Congressional Budget Office to analyze the economic impact of proposed legislation on the private sector.

The bill has moved to the Senate.

—James Worsham and David Warner

PHOTO: LAURENCE L. LEVIN

GOP congressional leaders *on small business: Sen. Christopher S. "Kit" Bond, top left, and Rep. James Talent, both of Missouri.*

ONLINE COMMERCE

U.S. Companies Could Be Bound By Europe's Online-Privacy Rules

U.S. companies doing business over the Internet could be subject to European privacy regulations that would restrict their ability to gather and sell information about their customers. That marketing technique, though common in the United States, is prohibited in many European nations.

The U.S. Department of Commerce and the European Union are in negotiations aimed at creating a framework that would ensure that U.S. companies comply with a 1998 EU directive that subjects companies doing business in Europe, even over the Internet, to the privacy regulations of individual European countries.

The Commerce Department has drafted "safe-harbor" privacy guidelines for U.S. companies. But the U.S. Chamber of Commerce and other members of the private sector's Online Privacy Alliance believe the guidelines could hold U.S. companies to a higher privacy standard than is in effect in the United States.

The Chamber and the alliance want the safe-harbor rules to encourage companies conducting electronic commerce to disclose a privacy policy on their World Wide Web sites and to subscribe to low-cost privacy-protection standards such as BBB*OnLine* from the Better Business Bureau and TrustE, which is backed by CommerceNet, an electronic-commerce consortium, and by the Electronic Frontier Foundation, a privacy group.

The alliance is conducting a survey about online privacy of e-commerce Web sites. Results of the survey are expected to be released this month.

—Tim McCollum

ORGANIZED LABOR

U.S. Chamber's Donohue Addresses AFL-CIO, Seeks Common Ground

Thomas J. Donohue, president and CEO of the U.S. Chamber of Commerce, appealed to top leaders of the AFL-CIO to work with business on issues on which the two organizations agree, even if they continue to disagree on other matters.

"More than ever, the interests of employers and employees are bound together," Donohue told the labor federation's executive council in Miami Beach on Feb. 19. "Our collective challenge is to protect prosperity and expand economic security for all Americans."

Donohue's speech was the first address by a U.S. Chamber president to organized labor's top governing body. And it followed another first—AFL-CIO President John J. Sweeney's address to the U.S. Chamber's board of directors in November.

Donohue cited a number of issues on which the two organizations could find common ground; they include solving the problem of the shortage of well-trained workers, improving the nation's transportation network, strengthening national defense, and finding reasonable solutions to environmental concerns.

In his speech at the Chamber, Sweeney acknowledged traditional policy differences between business and labor but cited some areas in which the two groups could work together, such as worker education and training, Social Security reform, and international trade.

—James Worsham

Managing Your Small Business

Making your firm's name memorable; staying sharp at trade shows; developing emotional competencies.

By Michael Barrier

MARKETING

Encouraging Referrals By Infrequent Customers

Suppose you own a business whose customers don't return very often. And when they want to recommend your company to others, some of them have trouble remembering its name.

That happens with Quality Transmission Service, a six-employee company in Tempe, Ariz. Although owner Bob Jones urges his customers to have their automatic transmissions serviced annually, he knows most of them won't. "Nobody gets up in the morning and says, 'Gee, I think I'll get my transmission worked on,'" he says, adding that customers generally come to him only when there's a crisis.

PHOTO: ©PAUL GERO

Customer referrals *are vital to business at Quality Transmission Service in Tempe, Ariz., says owner Bob Jones, so he works hard to encourage word of mouth.*

A former Air Force fighter pilot, Jones has some pictures of airplanes on a wall at his business. "Sometimes people will call and say, 'Are you the guy with the airplane pictures on the wall?' They've forgotten my name and the company's name, but they have some vague recollection of where I am geographically."

Jones, who has been in business 22 years, estimates that 90 percent of his customers come from referrals by other customers. So it's critical that his customers remember both a good experience and his company's name. To encourage such word of mouth, he follows these practices:

Honor the "3-11 Customer Rule." Eileen Brownell, president of Training Solutions in Chico, Calif., a firm that specializes in training in areas such as customer satisfaction and conflict resolution, sums up the rule this way: "A satisfied customer will tell three people your business is wonderful. A dissatisfied customer will tell up to 11 your business is terrible."

Jones concurs, and he tries to make sure that his customers don't have bad experiences. He pays his technicians salaries rather than having them work on commission, so there's no incentive to find "problems" that aren't there.

In the rare instances when a customer "comes apart," he says, it's important to respond calmly and professionally. "You just sit there and listen and take notes. You let them vent, and then you say, 'What can we do to resolve this for you?' Often, the customer's request is less than what you would guess."

Follow through after the sale. To overcome what Jones calls "the reluctance of some people to complain," he asks customers to bring their cars back after two weeks so his technicians can check for any problems. "About three-quarters of them do it," he says.

Keep your name before the customer. Jones sends a thank-you card to every customer, "regardless of the size of the job. I try to extend the contact." He also mails each customer a quarterly, one-page newsletter, printed on yellow paper so it will stand out. He has a World Wide Web page (at *www.quality-trans.com*), he appears on a radio show, and he wears his shop uniform nearly everywhere he goes.

"A lot of people I've known for years have never seen me dressed any other way," he says. "I won't say I'm a walking billboard, but it's close to that." ■

TRADE SHOWS

How To Keep Your Staff Alert When They're Working An Exhibit

Trade shows are becoming a bigger part of the lives of many small businesses, and that's presenting a challenge: How do you keep your exhibit staffers' energy levels up as they try to catch the eye of attendees for long hours at a stretch?

The Chicago-based Incomm Center for Trade Show Research (its World Wide Web site is at *www.tradeshowresearch.com*) recently surveyed 372 exhibit staffers and found that they recommended the following steps to minimize fatigue:

- Take a break of 10 to 15 minutes every two to three hours.
- Drink plenty of water to avoid dehydration.
- Work in groups—team selling is less stressful.
- Eat light meals that have an abundance of carbohydrates.
- Get lots of rest the night before.

The less pooped the staffers are, the better the impression they're likely to make—and that's critically important to the exhibit's success. Incomm, in a survey of 248 trade-show attendees, found that for 55 percent of them, the thing that triggered recall of an exhibit six months later was the interaction they had with the booth's personnel. ■

EMPLOYEE RELATIONS

Your Emotional Skills Can Make Or Break You

Being intelligent and gaining expertise in one's line of work aren't enough to ensure success, says author Daniel Goleman. In addition, he says, people in business must be judged on "how well we handle ourselves and each other."

In his recently published book, *Working With Emotional Intelligence* (Bantam, $25.95), Goleman says companies waste vast sums each year on worker education and training programs that are ineffective because they omit vital interpersonal skills.

Goleman, whose latest book is a follow-up to *Emotional Intelligence*, published in 1995, cites research from more than 500 companies in comparing the impact of intelligence and technical skills against that of what he calls "emotional competencies," such as empathizing with employees and learning how to get the best out of them.

He says emotional competencies are twice as important as IQ and job-specific skills in determining the success of business people. He concludes that emotional competencies are most important at the highest levels of responsibility in a firm.

Emotional competencies, according to Goleman, can be learned by any worker at any career stage. Among the "best practices" he cites as fostering greater emotional competencies are:

■ Assessing the individual. Tailoring training to each person's needs and skill level.

■ Delivering assessments with care. Being sensitive to an employee's self-image when giving feedback on job performance.

■ Motivating. If workers aren't eager to learn a job function, training won't be effective.

■ Focusing on clear, manageable goals. Spelling out details of what's expected of an employee and listing steps to get there.

■ Arranging support. Workers who are expected to change can gain much from even a single buddy or coach who is going through a similar change.

■ Reinforcing change. Recognizing successful employees with praise, pay increases, or greater responsibility.

—*Steve Bates*

The author is a business writer in Washington, D.C.

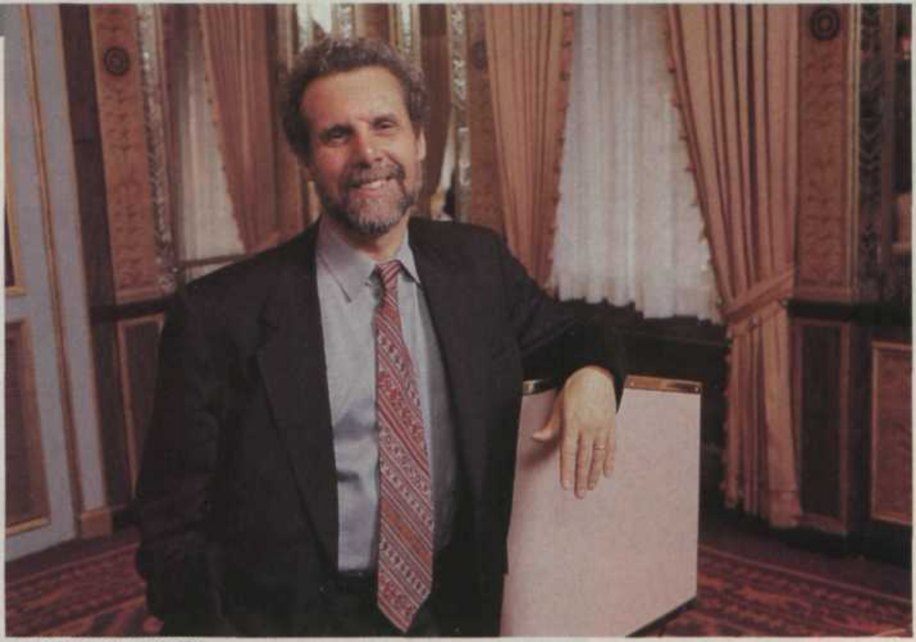


PHOTO: ©TOM SOBOLIK—BLACK STAR

"Emotional competencies" *such as empathizing with employees and learning how to get the best out of them are highly important for business managers, says author Daniel Goleman.*

PLANNING

Being Ready For A Disaster Can Help In Ordinary Times

There's an old saying, a joke with more than a grain of truth in it: Three moves equal one fire. One firm that takes to heart that saying about disruptive events is Strohl Systems in King of Prussia, Pa. Strohl Systems provides software and services for disaster-recovery planning.

If you have planned well for recovery from a fire or a flood, Strohl Systems says, you have assembled a database about your company's operations that can be put to work during disruptions of a more benign kind, such as moves, or during a strike, or even if your firm is affected by year 2000 computer problems.

If, for example, your disaster plan calls for assembling teams that combine skills needed to get the company back on its feet, you can create teams of the same kind to handle a move or other interruption. For instance, one team might be in charge of getting your computers back up and running, another could work with vendors during any hiatus, and another could deal with customers.

You can visit Strohl Systems' World Wide Web site at *www.strohl-systems.com*.

If you don't have a disaster plan, you probably should consider one. You might be able to obtain help or planning resources from not only software companies but also insurance and telecommunications companies.

For example, The Hartford, a large insurance company in Hartford, Conn., sells a *Guide to Emergency Preparedness Planning* (as a 263-page manual plus floppy disks, in Microsoft Word) for $149. For more information, see The Hartford's Web page, at *www.thehartford.com/corporate/losscontrol*. ■

NB TIPS

Baldrige Award Applications

The annual competition for the Malcolm Baldrige National Quality Award is under way. The award is administered by the National Institute of Standards and Technology (NIST), a federal agency within the Commerce Department, and has been given annually since 1988 to a handful of businesses—often including one or more small firms—that have emerged from a rigorous examination process.

You can obtain copies of the application forms and a 52-page explanatory booklet, *Criteria for Performance Excellence*, from NIST without charge. "Eligibility determination forms" must be submitted by April 15; the completed application is due by June 2.

To request a form and the criteria, call (301) 975-2036, fax your request to (301) 948-3716, or e-mail it to *nqp@nist.gov*.

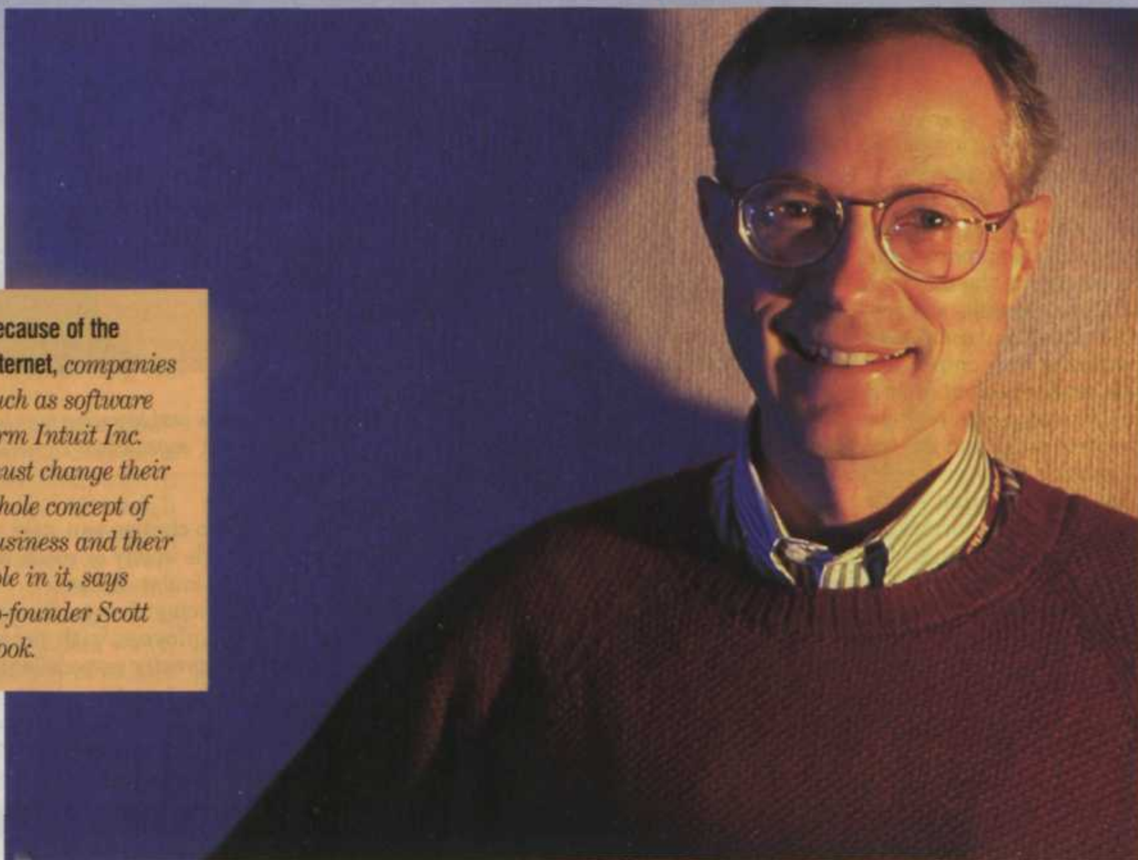
Remembering World War II

The 16 million Americans who served their country during World War II are finally going to be honored by a memorial on the National Mall in Washington, D.C. And small-business people can help make the memorial a reality.

Congress authorized the memorial in 1993; the $100 million cost is to be funded almost entirely through private donations. Tax-deductible contributions can be sent to World War II Memorial Fund, P.O. Box 96766, Washington, D.C. 20090-6766.

For more information on the memorial, visit *www.wwiimemorial.com* on the World Wide Web or call 1-800-639-4992. NB

End Your Internet



Because of the Internet, *companies such as software firm Intuit Inc. must change their whole concept of business and their role in it, says co-founder Scott Cook.*

PHOTO: ©ROBERT HOLMGREN

The booming Internet-based economy is forcing businesses to adapt and is spawning entrepreneurial firms that threaten the survival of many established companies.

By Tim McCollum

Intuit Inc. is among the most successful software companies of the personal-computing era, but its executives are uneasy about competition on the Internet. So much so, in fact, that they're betting Intuit's future on a radical reinvention of the company under way at Intuit's campuses in Mountain View, Calif., and San Diego.

Intuit's 3,500 employees worldwide are racing against time to complete the company's transformation and, according to the headline on Intuit's World Wide Web site, "revolutionize how people manage their financial lives."

Intuit already has revolutionized financial management for millions of people, starting in 1984 when founders Scott Cook and Tom Proulx launched a software program called Quicken.

Today, three software products—Quicken, now in its ninth version; a similar small-business accounting program called QuickBooks; and a personal and business tax-preparation program, TurboTax—dominate their respective categories. Each commands more than 80 percent of retail sales in its segment of the market, according to market-research firm PC Data in Reston, Va.

For its 1998 fiscal year, which ended July 31, Intuit's revenues reached $592.7 million, up 13 percent from a year earlier, and its net earnings were $46.7 million, 38 percent more than in the preceding fiscal year.

So why are executives at Intuit and other companies fighting their anxiety by retooling? The answer is that both new and established firms must adapt to and capitalize on the Internet to thrive. Even market leaders such as Intuit won't survive if they can't compete in an Internet-driven economy.

The rapid development of the Internet, especially the graphical, user-friendly Web, threatened to make Intuit's core products irrelevant. After all, why would people buy financial software if they could bank, invest, and do their taxes on the Web for free?

"The Internet is such a dramatic change that you have to change your whole concept of business and your role in it," says Intuit's Cook. "In our business, it's a fundamental change that's at the root of what we do and at the root of what we can do."

Anxieties Now

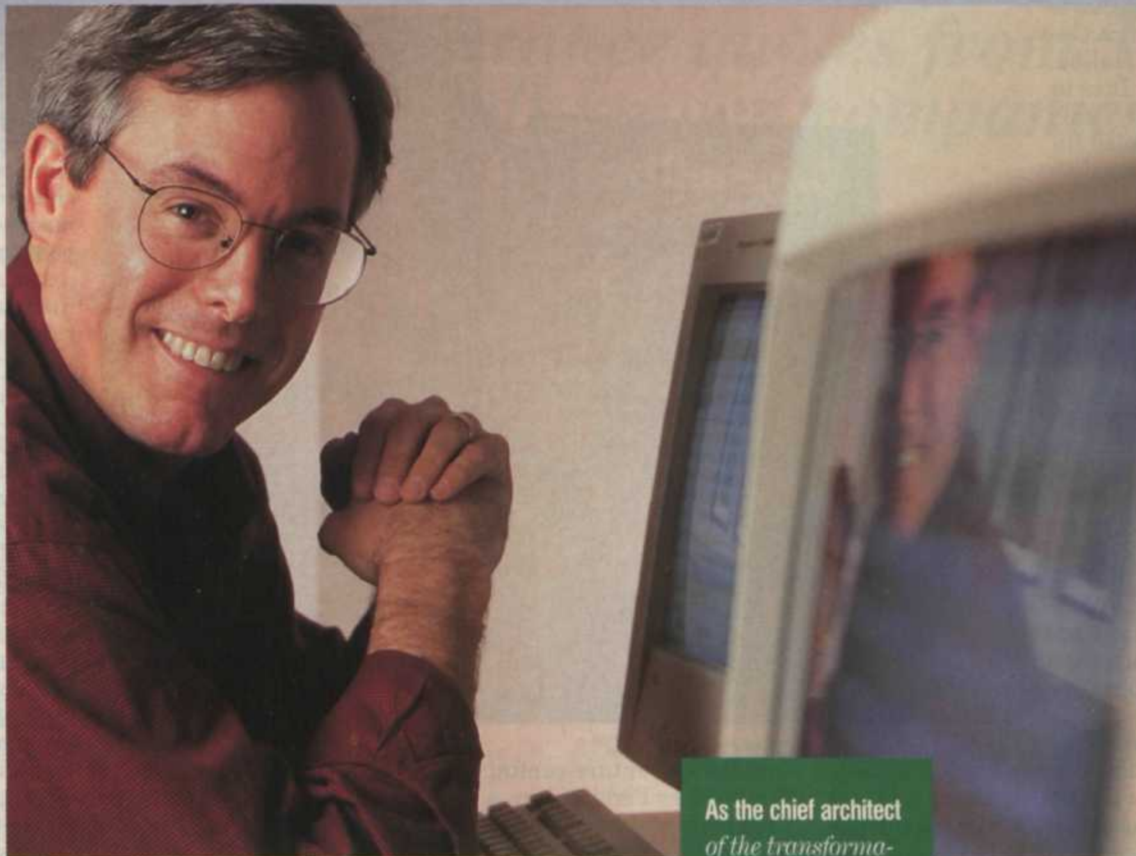


PHOTO: ©ROBERT HOLMGREN

As the chief architect *of the transformation of Intuit, Bill Harris, president and CEO, says the changes "span our entire business."*

But the impact of the Internet certainly is not limited to financial-management services or even to the software industry. In fact, it has dramatically changed the rules in practically all business sectors.

In the space of just a few years, the Internet has penetrated virtually every aspect of the economy, forcing companies of all sizes and types to make sense of new competition, new business opportunities, and new operating problems. It's the fastest-growing marketplace in the world economy, spawning new businesses, transforming existing ones, and creating enormous new wealth, opportunity, and risk.

About $50 billion in commerce was conducted on the Internet in 1998, according to International Data Corp. (IDC), a technology-research firm in Framingham, Mass. Internet commerce has become so pervasive—and so significant in volume—that in early February the U.S. Department of Commerce announced that it would begin reporting annually on the impact of online shopping on total retail-sales activity.

Looking ahead, IDC forecasts that electronic commerce will total more than $400 billion by 2002.

The New Entrepreneurs

The booming Internet-based economy is not only forcing established companies to adapt, it's also creating a new generation of entrepreneurial firms to challenge them. Web-savvy companies such as New York City-based advertising firm DoubleClick Inc., commercial-printing broker iPrint.com in Redwood City, Calif., grocery and personal-services firm Streamline Inc. in Westwood, Mass., and countless other firms around the world are taking on established companies such as Intuit in traditional and new lines of business. (See "Competitors From Cyberspace," Page 26.)

"Across all these new businesses there are these new 'infomediaries' that are creating new value by bringing buyers and sellers together," says Evan I. Schwartz, author of *Webonomics* (Broadway Books, $13) and the forthcoming *Digital Darwinism*. "They're totally disrupting almost every industry."

Rather than fight these new Web entrepreneurs, Intuit is seeking to join them by leveraging the capabilities of the Web to help people manage their financial affairs.

Intuit's work force is creating new finance-related content and services that will electronically match consumers with their choices of financial-services providers, ranging from banks and brokers to insurers and lenders. Moreover, Intuit engineers are building a technological infrastructure designed to ensure the security and reliability of online financial transactions.

"The Internet is the next new thing for us," says Bill Harris, who became Intuit's president and CEO in August and who has been the chief architect of Intuit's re-engineering project. "And the great thing about it is it's not just one thing—it's a whole host of things that span our entire business."

The Web entrepreneurs—some call them Netrepreneurs—have become the darlings

of Wall Street. The market values of Internet-based companies such as Amazon.com Inc. in Seattle and Yahoo! Inc. in Santa Clara, Calif., founded in 1995 and 1994 respectively, already exceed $1 billion after 1998 sales of $610 million and $203.2 million, respectively. The stock prices of many Internet companies—such as America Online Inc. in Dulles, Va.; Excite Inc. in Redwood City, Calif.; and the retooled Intuit—more than doubled in 1998.

"Internet Time"

Because the Internet lets companies serve customers anywhere at any time, it creates a truly global marketplace for large and small businesses. Companies can offer products and services 24 hours a day, seven days a week. As a consequence, the Internet economy operates at a greatly accelerated pace that has been dubbed Internet time.

Internet time forces Netrepreneurs to move quickly and aggressively to develop products and services, find capital, and win market share among Web consumers. The mantra for Web companies is "grow big fast."

"On the Web, markets form as spontaneously as tornadoes do in the atmosphere," says Geoffrey Moore, chairman of The Chasm Group, a San Mateo, Calif., technology marketing consulting firm. "Once the market starts really spinning, it tends to keep the players who were already there inside and keep the ones who want to get in outside," adds Moore, who also is an author and a partner in a Silicon Valley venture-capital firm, Mohr, Davidow Ventures.

Several years ago, Intuit was in danger of being left on the sidelines by the Internet. Financial and technology-industry analysts had begun writing off the company because its software sales were stagnant and it was losing money on outside businesses such as Intuit Services Corp. (ISC), an electronic-payment-processing subsidiary acquired in 1994.

Even worse, Intuit had no strategy for coping with Internet-based services from financial companies and Internet upstarts. Companies facing a similar dilemma of how to go up against such competition might draw inspiration from Intuit's example.

The turning point came in 1995, after Intuit and Redmond, Wash.-based Microsoft Corp. called off their proposed merger because of the U.S. Department of Justice's antitrust concerns.

That spring, at a meeting of the company's board of directors, director John Doerr of Silicon Valley venture-capital firm Kleiner Perkins gave a slide presentation outlining the Internet's potential.

That fall, Intuit responded by launching its own Web site containing basic financial information and by bundling Web-browser software and free Internet access to Intuit's site with its newest version of Quicken. But that was as far as Intuit went.

"The good news is we moved very fast there," Cook reflects. "The bad news is we moved fast only in a very limited area. The Internet had still not penetrated our thinking elsewhere."

Implementing A New Vision

During the summer of 1995, Intuit employees began brainstorming on ways that the company could make greater use of the Internet. Those discussions gave birth to a new vision for Intuit: to be the world's leading online financial supermarket.

Formulating such a vision and strategy is a crucial step for any company that is facing new competition from the Internet, says author Schwartz. It's necessary for a company to understand how the Internet affects its business and how the Net can be harnessed to help the firm grow.

For Intuit, reinventing itself has been a long, complex, and often soul-searching process.

The central element of Intuit's strategy has been Quicken.com (*www.quicken.com*), a financial Web site designed to extend Intuit's marquee-quality Quicken brand name to the Internet and to link consumers to a host of financial services.

Quicken.com was envisioned as a tool for empowering consumers and financial providers to do business directly at a substantially lower cost than they would incur using the proprietary ISC network that Intuit was operating at the time.

In September 1996, Intuit sold ISC to rival payment-processing firm Checkfree Corp. in Atlanta in exchange for a minority interest in that company. The deal allowed Intuit to focus its resources on its Internet strategy.

At the same time, Intuit teamed with Checkfree and Microsoft to develop a financial-transaction system called Open Financial Exchange, which enables banks to process transactions directly through desktop financial software and Web browsers. Intuit is using Open Financial Exchange for transactions on Quicken.com and licensing the technology to its financial-services partners.

Over the next two years, Intuit developed additional Web technology for Quicken.com and forged partnerships with banks and other financial providers to help it launch the service in 1997 ahead of competitors.

The Quicken.com site initially offered stock quotes, financial-planning advice, and online banking. Intuit then integrated Quicken.com into all of its software products, allowing desktop users to access the Internet site at the click of a mouse to obtain the latest financial information.

In the past year, Quicken.com has matured into the full-service financial hub that Cook and Harris envisioned, but it also evolves constantly to offer a greater array of services to more people.

Consumers can use Quicken.com to obtain services from more than 50 banks, 17

PHOTO: ©TOM SOBOLIK—BLACK STAR

The advertising industry *is undergoing a sea change because of the Internet. Leading the way are online-advertising pioneer DoubleClick and its founder and CEO, Kevin O'Connor.*

mortgage lenders, and 15 insurance carriers. The Web-based version of TurboTax is virtually identical in capabilities to Intuit's desktop version. Visitors can even use the site to handle their investments.

Intuit also added services for small businesses, including a payroll service that works with QuickBooks and a CashFinder service that helps entrepreneurs locate capital and loans.

Quicken.com now gets more than 1 million visits per month. To attract more attention on the Web, Intuit has struck deals to run the financial sections of America Online, Excite, and Yahoo!

All this wheeling, dealing, and maneuvering has Intuit acting more like an Internet start-up than like a software company. In fact, becoming an Internet company has changed the way Intuit does everything.

Harris says the company has gone from being a self-sufficient software developer to a company that must work with partners to get things done. "In the past," he says, "all we had to do was focus on the end-user customer, which is perfect in a stand-alone world. But in a connected world, everybody's connected to someone else."

Intuit's chances of succeeding with Quicken.com are far from certain. To ward off a growing number of competitors, Quicken.com must be as dominant on the Web as Quicken was in the realm of desktop software.

Intuit can't afford to stand still; like other Web companies, it must constantly reinvent itself in an increasingly dynamic business world.

The Customer Is Still King

Launching Quicken.com is one thing; actually being the company that revolutionizes people's finances is another. As with all companies, Intuit's fate will be decided by customers, and they have a growing number of choices.

First, many financial institutions—including several of Intuit's partners—offer online-banking services of their own, and more are expected to do so.

"The banks certainly don't need Intuit,"

The Volatility Of Internet Business

NetGrocer Inc. was one of the most talked-about companies on the World Wide Web in 1998. The New Brunswick, N.J.-based start-up had emerged as the apparent leader in the fledgling business of selling groceries over the Internet.

Early that year, NetGrocer forged partnerships with online-service leader America Online, based in Dulles, Va., and Excite Inc., a Web information and navigation center based in Redwood City, Calif. Under the arrangements, NetGrocer became the "featured" online grocer of these services. This business arrangement provided the company with direct links to its site from the popular America Online and Excite home pages.

NetGrocer then made a deal with Memphis, Tenn.-based Federal Express for overnight delivery of orders placed at the NetGrocer Web site. In August, company founder and CEO Daniel Nissan announced plans to go public.

Then the bottom fell out: Potential investors discovered that NetGrocer was bleeding financially. The firm had few customers, and its marketing, warehousing, and shipping costs far exceeded revenues.

By October, NetGrocer had canceled its public offering and laid off many of its 60 employees, and its investment backers even sent Nissan packing. Investor Frederick Horowitz, former president of US Detergents, took over as interim CEO, and the company is attempting to make a comeback.

A Costly Chasm

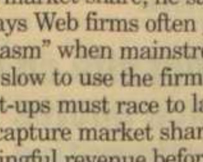
As NetGrocer demonstrates, the Web is an extremely volatile arena in which to conduct business. For every Web entrepreneur that makes it, there are dozens of companies that don't.

Web companies often appeal to consumers who will try new services, says Geoffrey Moore, chairman of The Chasm Group, a technology marketing consultancy in San Mateo, Calif. Flush with early success, Web firms tend to invest most of their capital in marketing their services with the aim of rapidly increasing their sales and market share, he says.

But Moore says Web firms often get caught in a "chasm" when mainstream consumers are slow to use the firm's services. Web start-ups must race to launch their services, capture market share, and generate meaningful revenue before their start-up capital runs out. But often they run out of money and close before attracting a critical mass.

Technology author Evan I. Schwartz says NetGrocer has misunderstood what consumers want.

Unlike competitors such as Peapod and Streamline, NetGrocer sells only nonperishable groceries such as canned and boxed products, which the company purchases wholesale and ships to customers from a central warehouse.



But consumers still have to go to the store to buy meat, milk, fresh fruit, and vegetables. That doesn't fly with consumers, says Schwartz.

"If you're going to deliver groceries to people, it has to be a complete solution. NetGrocer didn't solve a problem," Schwartz says.

Visions Of Big Gains

So why do investors and venture capitalists flock to Web start-ups with what may seem like reckless abandon—at least by traditional measures of company valuation?

They've seen stock-market capitalization shoot past the $1 billion mark for Internet start-ups such as Amazon.com Inc., a Seattle-based bookseller, and Yahoo! Inc., a Web directory and information provider in Santa Clara, Calif.

And they've seen recent initial public offerings pay off for companies such as online auction house eBay Inc. of San Jose, Calif.

They're betting that their gains from Web winners will more than make up for the losers.

"It only takes one eBay to make this worthwhile" for venture capitalists and investors, Moore says.

That's why venture capitalists continue searching for the next possible Web success and why Web entrepreneurs who have failed at one venture often pick themselves up and start again.

Tips For Competing With Web-Based Firms

Printer's Inc. bookstore was a local institution in Palo Alto, Calif. But at the end of 1998, owners Gary Masteller and Susan MacDonald astounded loyal patrons by announcing that the store would close in March after more than 20 years in operation.

With considerable effort, the company had remained competitive with the area outlets of book-selling superstores Barnes & Noble Inc., based in New York City, and Borders Inc. of Ann Arbor, Mich., even though Printer's Inc.'s location was less than ideal and its rent was rising fast.

But the emergence on the World Wide Web of Seattle-based Amazon.com Inc., with its vast stock and discount prices, finally convinced Masteller and MacDonald that they were fighting a losing battle.

A smaller Printer's Inc. store they own in nearby Mountain View will remain open, however. It has a better location than the Palo Alto store and is less expensive to operate.

The Web retailers, along with escalating Silicon Valley rents and lackluster night traffic, eventually became too much for the Palo Alto store, Masteller says. These are problems that online retailers don't encounter.

Masteller says the Internet threatens the existence of all independent bookstores. "The Internet is here to stay. But if too much business is going to Internet sites and not enough is going to physical bookstores, then bookstores can't survive."

Technology author Evan I. Schwartz concurs. "A lot of small businesses are getting killed," he says. He reasons that small businesses—regardless of whether they have an online presence—are now subject to the same hypercompetitive market conditions as Web-based companies. It's an overall market in which customers have great power to shop for the best deals and most-convenient services, he says.

This shift in power to consumers has already reshaped companies as diverse as brokerages, car dealerships, and travel agencies, says Schwartz. It has put the pressure on small neighborhood companies to add value to their products and services that customers can't find online.

"You're not going to be able to beat these people on price or on selection," Schwartz says, but you can compete "by doing what you do best, which is local, personal service."

Businesses such as dry cleaners, convenience stores, restaurants, and video-rental shops stand a better chance against Internet competition because their products and services are best delivered locally, says Geoffrey Moore of The Chasm Group, a San Mateo, Calif., technology marketing consultancy. Yet even these companies could be beaten by a Web-savvy local competitor.

If you're a small-company owner, how can you compete? Start by studying your competition on the Web. Then figure out how you can improve service and add value for customers. Specifically, Moore and Schwartz suggest that you:

Add value. The Web enables people to become informed consumers, providing them with a wealth of information about products and services. So small companies must go beyond providing basic information and services. You must give consumers something that Web services can't: firsthand expertise on your product or service; a great shopping experience; ongoing service and support; convenience; and a need to continue a relationship with your company.

Play to your strengths. Companies may panic when threatened by a Web competitor. They may react by thinking they should compete by emulating what the Web company is doing. But that plays into the Web company's hands. Don't copy your Web competitor. Compete on your terms. Develop a Web strategy that fits your business. Take what makes your business strong and unique and extend it to the Web.

Strengthen your connection with customers. The Web is supposed to enable companies to do one-to-one marketing with customers. But small companies have been able to do that all along. Get to know what your customers want, and offer them personalized service.

Specialize. Web competitors are going after the broadest audience possible. You can beat them by catering to a specialty niche or a particular interest group. If you're a travel agent, for example, try specializing in packages for groups, such as senior citizens or singles, or offer trips to exotic locales, or cater to travelers seeking adventure.

Use the Internet. Even if your customers are local, you should have a Web site that tells people about your company and lets customers order products or schedule services. Send customers e-mail telling them what's new at your store. The Internet can help a local company offer things that an online competitor can't: a human touch.

Following these tips won't guarantee a small firm that it can compete successfully against a Web competitor, though. Printer's Inc. had a solid local following and a reputation for service and expertise, but its owners found that it's tough to compete with Web retailers who can entice customers with lower prices, better selection, and 24-hour availability.

says Michael Gazala, senior analyst for money and technology at Forrester Research, a technology-research firm in Cambridge, Mass. "What's important is what a consumer wants. And consumers want to be able to keep track of all their financial information in one place. Whether that's provided by a software company or by a Web portal or by a bank hasn't been determined yet."

Gazala says many companies are vying to be the Web's financial hub. Intuit is competing with emerging personal-finance services such as Microsoft's MSN Money Central and Pace Financial Network LLC in Vienna, Va., which provide financial information and services that are similar to those of Quicken.com.

Intuit also must compete against popular Web brokerages such as Datek Online Holdings Corp. in Iselin, N.J., and E*Trade Group Inc. in Palo Alto, Calif. These services have put traditional brokerage firms on the defensive by giving Web users control over their investments at a low cost.

PHOTO: ©ROBERT HOLMGREN

By changing the way *people buy printing, iPrint.com and its founder, Royal Farros, have become major players in the industry.*

A New Advertising Medium

The new Web companies that threaten to end Intuit's dominance are also challenging companies in other industries. Of the industries being transformed because of the Internet, none is experiencing greater change than advertising. And the company that's leading the way in that field is DoubleClick (*www.doubleclick.com*). Its handiwork is throughout the Web: the so-called banner ads at the top or bottom of Web pages.

The Web has created countless new "publishers," each with ad space to sell. Kevin O'Connor, DoubleClick's founder and CEO, saw the potential for this new advertising medium in 1996.

A veteran of several technology companies, O'Connor realized that the Web would allow advertisers to reach a highly segmented audience. "The Web is a very efficient and measurable advertising buy," O'Connor says. "It's got the targeting and measurability of direct marketing and the reach of broadcast."

Advertisers buy into DoubleClick's worldwide network of sites, and DoubleClick places their messages in the locations where they are most likely to be seen by the target audience. For example, a sporting-goods company might have its ads placed on sites frequented by sports fans, and a garden-supply firm's ads would appear at home-and-garden sites.

Intermediaries such as DoubleClick "help people get a reach without having to go to many networks," says Tom Fornoff, vice president of IntelliQuest, a technology-research firm in Austin, Texas. "So they work very effectively both for the buyer and for the ad seller."

Using software files called "cookies," which many Web sites store on users' PCs when those sites have been visited, DoubleClick is able to track what users do on the Web and subsequently target ads to their interests.

The company can provide advertisers with constant feedback on how many times their ads were seen by Web visitors and how many times the ads were clicked on for further information.

DoubleClick can even tell advertisers about other ads that users may have seen and Web sites they visited. By generating so much data, the firm can charge an advertiser a fee based on an ad's actual performance rather than charge a fixed price based on circulation or audience ratings.

Moreover, companies get an immediate response to their ads when people click through to their Web sites. "The Web is the only medium where the consumer can interact" with advertisers, says Doug McPharland, vice president of New York City-based Media Metrix, which measures the popularity of Web sites. "Here's a medium where, if the advertiser wants, he can choose to have direct communication with customers."

McPharland says DoubleClick's ad-network approach is helping to establish the model for online advertising and proving that it works. But it took some time to convince advertisers and advertising firms.

It didn't help that O'Connor, with his technology background, didn't know much about the advertising business. So he moved the company from Atlanta, where it was founded, to New York City to be closer to Manhattan's large advertising and media communities. Then he recruited people with media backgrounds who were interested in the Web.

At first, the advertising agencies and their clients scoffed. But DoubleClick built its network and kept preaching the Web's potential. Indeed, DoubleClick was on to something. The Internet Advertising Bureau in New York City estimates Web-advertising revenues totaled $2 billion in 1998. Forrester Research forecasts that online-ad sales will reach $15 billion in 2003.

"At first it was an evangelical sale," O'Connor says. "Today there's no way to ignore the influence the Web has had. Now people are asking how they can harness it and turn it into a revenue source."

Virtual Printing Services

Royal Farros, founder of iPrint.com, is shaking up the $278 billion commercial-printing industry by changing the way people buy printing services.

In the process, iPrint.com is re-engineering a business model that goes back to Johann Gutenberg, the German printer credited with inventing the printing press with movable type in 1436.

There's not a printing press within miles of iPrint.com's Redwood City offices, so Farros and his 60 employees don't have the ink-stained hands of professional printers. Yet iPrint.com is becoming a major player in the printing industry, with orders up 1,400 percent in 1998 over 1997, thanks in part to contracts with OfficeMax Inc. in Cleveland and Sir Speedy Inc. in Mission Viejo, Calif.,

to provide Web and in-store ordering of printing jobs for their customers.

At iPrint.com's Web site, *www.iprint.com*, users can design and order customized business cards, stationery, and greeting cards as well as printed gift items and other printing jobs. The turnaround time typically is a matter of days.

In 1996, Farros learned that up to 20 percent of orders sent to commercial printers had to be redone because of typographical and other errors that arose during the process of converting orders submitted on paper into typeset form.

"The traditional process had been going on for so long that people didn't realize how corroded it was," Farros says. He believed he could do better by giving customers control over the printing process.

At the time, Farros was running a software company called T/Maker Co. It produced desktop-publishing software that helped novice computer users design their own business cards and stationery. He and his software developers took that capability to the Web, enabling users to create printed materials online using browser software.

To users, *iprint.com* looks more like desktop software than a Web site. They click on icons, use an on-screen toolbox, and pull-down menus to design materials. They can choose from a vast library of design templates and customize them with their choice of clip art.

Once users have made and approved a design, they submit it along with ordering information and a credit-card number. Then iPrint.com sends it out electronically to a traditional printer.

Because of the reach of the Internet, Farros says, iPrint.com went "from zero to infinite distribution. We couldn't set up that many brick-and-mortar types of shops across the country. But with the Web, we have access to our customers, and, more importantly, our customers have access to us anywhere they are."

Farros' efforts seem to be gaining momentum. He recently signed on major printers and specialty-item producers such as Business Cards Tomorrow Inc., Ennis Business Forms Inc., 3M Corp., Wilmer Co., and Wolf Camera & Video to print and deliver orders to customers.

Commercial printers are growing wary of iPrint.com, but Farros insists that he's not trying to drive them out of business. Rather, he says, he wants them to join him. To that end, iPrint.com has built a technology platform that will enable printers of all sizes to process orders using the Web.

PHOTO: ©RICHARD HOWARD

Online grocery
Streamline has stayed local in the Boston area, but it's ready to go national now that its service model has proved successful, says CEO Tim DeMello.

iPrint.com's chief competitors on the Web are expected to be large printing chains such as AlphaGraphics Inc. in Tucson, Ariz., and Kinko's Inc. in Ventura, Calif., which have been automating their stores in recent years and have begun offering publishing services over the Web.

Still, the advantage may go to iPrint.com because the Web tends to favor innovative outsiders over established companies, says Geoffrey Moore, whose books *Crossing the Chasm* (HarperBusiness, $16) and *Inside the Tornado* (HarperBusiness, $26) are considered essential texts for high-tech entrepreneurs.

"The Web-based company gets the Web," Moore says. "They understand the people who are on the Web and what makes a good Web experience. And they don't carry the old legacy baggage of the established company."

Food For Marketing Thought

The grocery business is one of the most entrenched "legacy" industries. It also figures to be one of the most difficult for Web-based companies to enter. Groceries aren't "information" that can be downloaded over the Internet. And companies can't ship people a week's worth of ice cream, milk, meat, and fresh vegetables the way Amazon.com ships books.

Not that companies haven't tried. Online ordering of groceries for delivery was one of the first offerings of the Prodigy online service in the early 1990s, but customers weren't interested, and the services were shelved.

Now online grocery services are back. Companies such as NetGrocer Inc., Peapod Inc., and Streamline are catering to busy Internet shoppers who don't have time to go to the supermarket. A study conducted last year by New York City-based management consulting firm Andersen Consulting forecasts that U.S. consumers will buy $8.5 billion worth of products annually from online grocers by 2007.

Each of the Web grocers does things differently. NetGrocer in New Brunswick, N.J., lets customers order nonperishable items such as canned goods, cereal, and bread on its Web site and ships the items from a central warehouse to the purchaser's doorstep by Federal Express (See "The Volatility Of Internet Business," Page 22). Peapod, based in Skokie, Ill., fills online orders by sending local employees to supermarkets to purchase products and deliver them to customers' homes.

Streamline, which operates in the Boston area, may have the most unusual approach of the three. Think of Streamline as a cross between a personal shopper and the old-fashioned supermarket box boy.

When a customer signs up with Streamline, a representative of the company goes to the person's home and uses a bar-code scanner to inventory the cupboards and the refrigerator. The company uses the collected data to create a personal shopping list that the customer can view and revise on Streamline's Web site, at *www.streamline.com*.

During the week, the customer can add items to the list. Once a week, Streamline fills the order from its distribution center and deposits the groceries in a delivery container in the customer's garage; the container has separate compartments for dry goods, refrigerated items, and frozen foods.

"The new consumers want to separate the

COVER STORY

things they need to do from the things they want to do," says Streamline's CEO, Tim DeMello, who founded the company in 1995. "I wanted to create a company that would go into a local market, put in resources, and give consumers a once-a-week solution to the problems they were having."

Streamline serves 2,000 households in 34 suburban Boston communities. Each household pays $30 a month for the convenience of using the Web to order groceries and prepared meals and for services such as video rentals, film processing, and dry cleaning.

Streamline's prices are comparable with those of supermarkets. But price isn't what draws people to Streamline, says DeMello. The big attraction is service.

From the beginning, DeMello wanted to use the Web and technology to provide the best service possible for his customers. Yet, unlike many other Web retailers, Streamline gets to know its customers personally.

It monitors customers' buying habits to learn how frequently households purchase various items so that Streamline can alert them when they might be running low or can offer them special prices.

"The Internet allows us to take the visual and informational aspects of products and move them into the home environment," says DeMello. "I can show them products and give them new ideas that pertain most to them."

For its efforts, Streamline has managed to retain a remarkable 98 percent of its customers since its launch. And by serving prosperous suburban families exclusively, Streamline is able to generate average per-household sales of $6,000 a year.

Such numbers indicate Streamline's success in the Boston area. But by staying local, Streamline seems to be defying the "grow big fast" mentality of the Web. "It's taken some time to develop our service model and make sure we got it right," DeMello says. "But now that we've developed the model, we're ready to roll it out nationally."

That expansion will be made possible through $40 million in investments over the past year from GE Capital Services, Intel Corp., PaineWebber, Reliance Insurance Co., SAP America, and Nordstrom Inc., which recently bought a minority interest. Streamline will open its second customer-service center, in Gaithersburg, Md., this year to serve suburban Washington, and it has plans to open other markets later.

Streamline has become a model for competing online grocers as well as other Netrepreneurs. "Streamline has figured out how to do things better," says author Schwartz. It delivers "an entire solution. And all the Web companies that are successful are solving problems for customers."

Schwartz says Streamline and other successful Netrepreneurs have managed to establish their brands on the Web. But IntelliQuest's Fornoff says other companies with already recognized brands still have time to establish those brands on the Web and compete with the Netrepreneurs, as Intuit has done.

"The market is so new that in most categories, brands haven't been established on the Web," Fornoff says. "Many people in the marketplace know the importance of being the first mover. But if you move too early, other people can catch up who do a better job of marketing and promoting."

To compete in the Internet economy, established small firms and start-ups alike must rethink their businesses and establish long-term strategies for capitalizing on the Internet.

They must adapt to the new dynamic business conditions created by the Internet and accept constant change as a reality of the new economy. They must reinvent themselves routinely.

Companies that stand still could fail. NB

To order a reprint of this story, see Page 49. For a fax copy, see Page 33.

Competitors From Cyberspace

Some of your competitors no doubt have sites on the World Wide Web and are going after your customers. Inevitably, they'll lead you to change the way you do business. No company is immune from the competition. In every industry or market, there is at least one Web-based business aiming to dominate. Following are some of the most formidable competitors in various market segments:

Market	Company	Address
Advertising	DoubleClick	www.doubleclick.com
Auctions	eBay	www.ebay.com
	OnSale	www.onsale.com
Auto Retailing	AutoByTel.com	www.autobytel.com
Banking	Security First National Bank	www.sfnb.com
Books	Amazon.com	www.amazon.com
Broadcasting	Broadcast.com	www.broadcast.com
Computer Hardware, Software	Insight.com	www.insight.com
Employment	Headhunter.net	www.headhunter.net
	Monster.com	www.monster.com
Flowers	1-800-Flowers	www.1800flowers.com
Furniture	FurniturePoint	www.furniture.com
Gardening	Garden Escape	www.garden.com
Greeting Cards	Blue Mountain Arts	www.bluemountain.com
	e.greetings	www.egreetings.com
Groceries	Peapod	www.peapod.com
	Streamline	www.streamline.com
Human Resources, Benefits	Employease	www.employease.com
Insurance	InsureMarket	www.insuremarket.com
Mortgage Broker	QuickenMortgage	www.quickenmortgage.com
Music	CDNow	www.cdnow.com
	Music Boulevard	www.musicblvd.com
Personal Finance	Pace Financial Network	www.pacefinnet.com
	Quicken.com	www.quicken.com
Pharmacy	Drugstore.com	www.drugstore.com
	PlanetRx	www.planetrx.com
Printing	iPrint.com	www.iprint.com
Publishing	CNet	www.cnet.com
Real-Estate Listings	MSN HomeAdvisor	homeadvisor.msn.com
Stock Brokerage	Datek	www.datek.com
	E*Trade	www.etrade.com
Toys	eToys	www.etoys.com
	Holt Educational Outlet	www.holtoutlet.com
Travel Reservations	Travelocity	www.travelocity.com
	The Trip.com	www.thetrip.com
Videos	Reel.com	www.reel.com
Wedding Registry	The Knot	www.theknot.com
Wine Merchants	Virtual Vineyards	www.virtualvineyard.com

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Small Business Financial Adviser

Dealing with a client's insolvency; deciding whether to manage your stocks; exploring private mutual funds; evaluating index funds' performance.

Coping When A Customer Goes Bankrupt

By J. Tol Broome Jr.

Sitting at his desk last June, Kit Kiefer was overcome first with a sick feeling—and then with anger. His company, Professional Hobby Consultants Inc. in New London, Wis., had just received notice that its largest client had filed for Chapter 11 bankruptcy.

As a consultant providing services in the volatile sports-card industry, it was not the first time that Kiefer had seen a major customer file for bankruptcy. But he had never before been so reliant on a single company. Pinnacle Brands accounted for 80 percent of Kiefer's business.

"When I found out Pinnacle had filed for bankruptcy, we were owed a lot of money from them, and I wondered if we would be paid," says Kiefer. Even so, he continued to provide services to Pinnacle and eventually collected nearly all the money he was owed.

In fact, Kiefer's company has generally escaped the effects of bankruptcy filings by multiple customers and suppliers during the 1990s. He attributes this to one key factor.

"In every case, we have had a good rapport with either the bankruptcy trustee or the person left in charge of the company," Kiefer explains. "I am convinced from the experience that we have had that maintaining these good personal relationships with honest people goes a long way in collecting what you are owed when a customer files for bankruptcy."

J. Tol Broome Jr., a credit-risk manager for a Greensboro, N.C., bank, writes on financial matters.

PHOTO: ©BRENT NICASTRO

After a client struck out *and filed for bankruptcy, sports-card specialist Kit Kiefer, owner of Professional Hobby Consultants in New London, Wis., took steps that protected his firm's interests.*

Following are tips from experts on protecting your interests if a customer files for bankruptcy:

Getting the ball rolling. Under the Federal Bankruptcy Act, individuals and organizations can file for bankruptcy through one of various chapters. The chapters most frequently used are 7, 11, and 13.

A Chapter 7 bankruptcy generally leads to full liquidation of a company's assets.

Under Chapter 11, the most common form of bankruptcy, the debtor company files a reorganization plan that generally allows it to remain in control of its business and assets while it tries to get back on its feet. Chapter 11 also frees the debtor from the threat of lawsuits by creditors—provided that a majority of the creditors agree to the reorganization plan.

Chapter 13 is used by individuals and sole proprietorships. The debtor agrees to pay back as many creditors as possible.

If you're notified that a customer has filed for bankruptcy, respond immediately with a "reclaim demand"—a document filed to recover all or part of what you are owed. It must be filed with the bankruptcy court "no later than 20 days after the goods have been delivered," says Joe Bodoff, an attorney with Shechtman, Levy and Halpern in Boston and a director of the American Bankruptcy Institute, a Washington, D.C.-based trade association for bankruptcy attorneys and professionals.

Validating your claim. Creditors file a "a proof of claim" to validate debts they are owed in a bankruptcy proceeding. There's no need to file the document, however, if your customer files for bankruptcy under Chapter 11 and the notice you receive is accurate concerning the amount your firm is owed and any collateral the customer might have put up.

In a Chapter 7 bankruptcy, Bodoff advises creditors to file a proof of claim only if they expect to be paid back.

Some contact is OK. Don't call the customer for payment after you receive notice of the filing. You can be held in contempt of court or even jailed if you pursue a debtor after bankruptcy has been filed. But some contact is permissible. Says Bodoff: "You can call the debtor for information about the bankruptcy case, financial performance, and even prospects for payment."

Feeling unsecured. If you did not secure collateral from your customer, as is the case with most business creditors, a bankruptcy filing under Chapter 11 or Chapter 13 gives you a better chance of collecting at least a fraction of what you

are owed. If your customer files under Chapter 7, you likely will receive nothing if you are an unsecured creditor.

Quick liquidation. A secured creditor might be better off if the customer files under Chapter 7. Sometimes it is best for the creditor if the debtor liquidates quickly—the creditor might have to take some lumps, but the value of the collateral will not have a chance to deteriorate.

Paying attention to notices. You may want to attend creditor meetings and court hearings to stay informed about your prospects for repayment. You should also watch your mail for notices of discharge or dismissal.

A notice of discharge in a Chapter 7 bankruptcy case means that the liquidation is complete; in a Chapter 11 case, it means that the debtor has met all the terms of the reorganization plan. If a case is discharged, you will receive no more payments.

A notice of dismissal means that a Chapter 11 reorganization plan has not been followed or that the debtor has committed fraud. If a case is dismissed, you can go after the debtor for the full amount owed.

Joining a creditors committee. In most Chapter 11 cases, a creditors committee is formed. Bodoff advises his clients that if a lot of money is at stake, they should try to gain a spot on the committee.

If one of your major clients files for bankruptcy, don't panic. There are actions you can take to improve your chances of collecting.

Alice Magos, an analyst with CCH Inc., a business-advisory firm in Riverwoods, Ill., says that "by joining forces with other creditors [on a committee], you can save money on attorneys' fees and ensure professional representation in following the case, filing claims, etc. And acting as a group, you might be more successful in getting paid."

Selling to a Chapter 11 debtor. Think twice before selling to a debtor that has filed for Chapter 11, but in some instances it might be appropriate.

If the debtor company's reorganization plan seems viable, you might stand a better chance of collecting what the debtor owes your firm by selling more goods to the debtor and helping it stay in business.

Bodoff says many post-bankruptcy sales of goods are restricted to cash on delivery.

Magos says that selling after a Chapter 11 bankruptcy petition "is pretty risky. But when you do sell post-petition, at least you have the court watching over you and protecting your position. If you think it will help you collect your pre-petition debt owed, then it's probably a good idea."

Hiring an attorney. For claims of $10,000 or more, a creditor should at least consult an attorney. If the bankruptcy involves a major customer, Magos says, "I definitely would hire an attorney."

Finally, if one of your major customers has filed for bankruptcy, don't panic. You can take actions to improve your chances of collecting.

"We've learned that working with a bankruptcy judge or trustee isn't the worst thing in the world," says sports-card consultant Kiefer. "If you take steps to protect yourself and try to add value to the bankruptcy proceeding [as he did by continuing to provide services to Pinnacle after it filed for bankruptcy], you just might get paid." ■

STRATEGY

Portfolio Managing's Minuses

ILLUSTRATION: GEORGIA LEIGH MCDONALD

If you're an active investor, try this question on yourself: Are you better off spending your time and energy trying to beat the market, or working to grow your business?

Most financial planners would say that investing your money in the stock market is a wise decision as long as you have a long-term time horizon and a tolerance for risk.

But investing time and energy in the stock market—even if you beat a market benchmark such as the Standard & Poor's 500-stock index—may not prove as rewarding as you might think.

Consider the examples of two investors:

The first investor starts with $10,000 and spends 15 hours a week managing the money. Over 10 years, the investor beats the S&P 500 by an impressive five percentage points per year. If the market's value grew at an average annual rate as high as, say, 15 percent, the investor's 20 percent annual return would have increased his portfolio's value to $62,000.

The second investor decides not to spend his own time managing his money. He puts his initial $10,000 into an S&P 500 index mutual fund. His fund investment grows at 15 percent per year—the same rate of growth as the stock market's—and he spends 15 hours a week at a minimum-wage job that nets him $4 an hour after taxes. He deposits all of his earnings into the same index fund.

At the end of 10 years, the second investor's portfolio is worth $113,000—82 percent more than the portfolio of the investor who did his own investment management.

The bottom line is that the first investor's earnings attributable to the time he spent managing his stocks were roughly equal to the minimum wage.

The message for a business owner is clear: Instead of investing a lot of time and energy into beating the market, you'd be better off in the long run tending to everyday business issues that can lead to greater profits. That way, you'll have more money to invest. *—David Burros*

The author, a CPA and certified financial planner, is CEO of Denver-based Burros Consulting & Speaking.

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INVESTING

Private Mutual Funds Can Trim Investment Costs

By Juan Hovey

Investors benefit in many ways when they pool their resources in mutual funds. They get the investment expertise of the fund manager, and they benefit from economies of scale in buying and selling securities and administering the fund.

Group rates go only so far in mutual funds, however. And they don't satisfy the investor who wants to cut investment costs to the bone. Even no-load mutual funds (those that don't charge a sales commission at the outset) assess annual fees, commonly 1 percent or more, for expenses.

Some financial planners offer their clients the benefits of mutual-fund investing at about half the usual management cost by forming what are essentially private mutual-funds.

Financial planners can form limited-liability companies that pool assets from a handful of individuals, say \$5 million to \$10 million in all from up to two dozen people. The planner hires a money manager to invest the funds and a custodian to do the record keeping. The fund itself is customized to fit the needs of the investors in the group. The results: savings of up to 50 percent on management expenses and, through fund-management tactics, a smaller tax bite.

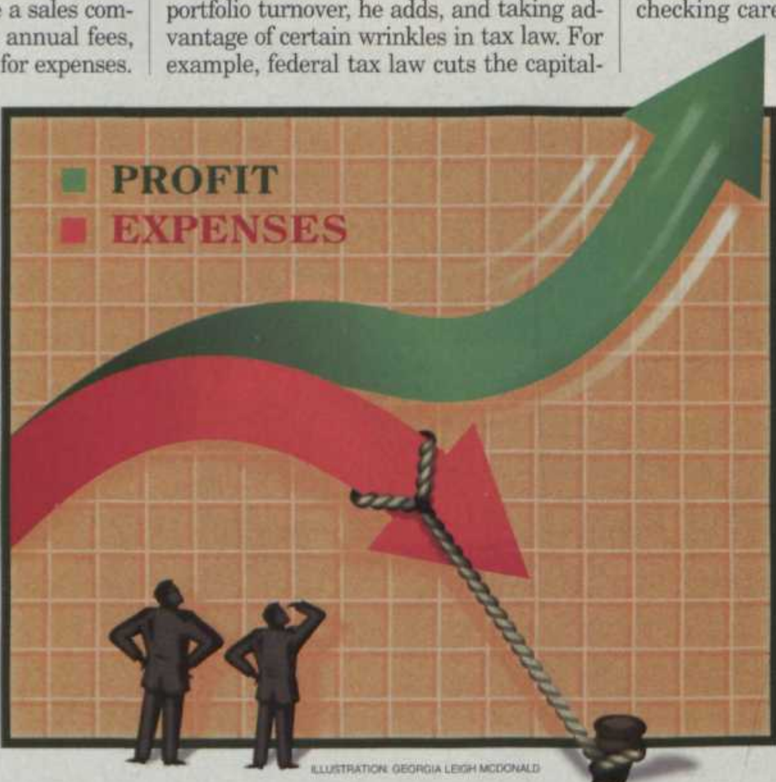

ILLUSTRATION: GEORGIA LEIGH MCDONALD

Leveling A Playing Field

The private mutual fund gives investors who are merely well-off the same clout as those who are truly wealthy, says Mark F. Spangler, president of Spangler Financial Group Inc. of Seattle. Spangler is a fee-only financial planner and a former chairman of the National Association of Personal Financial Advisors, based in Buffalo Grove, Ill. He does financial planning for a number of executives at a nearby Microsoft Corp. facility. At the end of last year, Spangler had seven private mutual funds in operation and had plans to form two or three more this year.

Each fund seeks to match its investments to the objectives of the individuals in the group, Spangler says. Hence, one fund invests in the stocks of small and medium-sized companies, another in large companies, a third in Treasury bills, and so on.

"The savings in expenses over ordinary mutual funds can be substantial," Spangler says. "If you have \$10 million invested in mutual funds, your annual expenses can total \$100,000—and if you can cut that in half, you're talking about a lot of money."

The tax savings come from limiting portfolio turnover, he adds, and taking advantage of certain wrinkles in tax law. For example, federal tax law cuts the capital-gains tax to 10 percent on stock held for five years or more in companies valued at less than \$50 million.

What's more, Spangler says, tax law also defers taxes on gains in such stock upon sale if the investor—in this case the private mutual fund—rolls the proceeds into the stock of another small company. Compare that with the capital-gains taxes on any ordinary stock fund—20 percent for investments held for a minimum of one year—and you see the possibilities, Spangler says.

Qualifying To Take Part

Private mutual funds aren't for everybody, of course. For one thing, to invest in one, you must be what the Securities and Exchange Commission calls an accredited investor—a person with \$200,000 in income or \$1 million in net worth.

For another, you have to find one in which you can invest. Only a handful of financial planners use private mutual funds, and not all states allow the practice. (States that permit such investing include California, Oregon, Washington, and Delaware.)

In addition, federal law prevents financial planners from advertising private mutual funds, so if you hear of one, it is likely to be by word of mouth.

Finally, you have to keep your eyes open when investing in a private mutual fund, checking carefully into the qualifications of the financial planner who organizes it, the money manager who runs it, and the custodian who keeps the books.

Indeed, private mutual funds fly beneath the radar of the government's regulatory apparatus. The states and the federal government exercise only minimal oversight on private mutual funds by limiting the number of investors in any one private fund and requiring only that the organizer of the fund put together a private-placement memorandum—analogous to a prospectus for a mutual fund—detailing the objectives of the fund and disclaiming any promises regarding performance.

The Risks For The Rewards

If you meet the investing standards, find a fund that qualifies, and decide to jump in, you're on your own. Indeed, the individual who invests in a private mutual fund does so at his or her own risk, with no guarantee that the fund will live up to its promises or, even worse, that the investor will fall into a safety net if it doesn't.

"There's no active regulation, and nobody to say whether what the private mutual fund does is kosher," says Spangler. "But the advantage is that you get professional money management and custodian services for about half what you pay in a traditional mutual fund.

"You also get the attention of your fund managers; you get to visit with them and talk over the fund's objectives and performance.

"It's a much different relationship than you get with a mutual fund." ■

Juan Hovey of Thousand Oaks, Calif., is a financial columnist for The Los Angeles Times.

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MONTHLY RATES

Issue Age	$100,000		$250,000		$500,000		$1,000,000	
	Male	Female	Male	Female	Male	Female	Male	Female
20-25	11.72	11.20	18.81	17.50	30.62	28.00	54.25	49.00
26	11.72	11.20	18.81	17.50	30.62	28.00	54.25	49.00
27	11.81	11.28	19.03	17.71	31.06	28.43	55.12	49.87
28	11.81	11.28	19.03	17.71	31.06	28.43	55.12	49.87
29	11.81	11.28	19.03	17.71	31.06	28.43	55.12	49.87
30	11.81	11.28	19.03	17.71	31.06	28.43	55.12	49.87
31	11.81	11.28	19.03	17.71	31.06	28.43	55.12	49.87
32	11.81	11.28	19.03	17.71	31.06	28.43	55.12	49.87
33	11.81	11.28	19.03	17.71	31.06	28.43	55.12	49.87
34	11.90	11.28	19.25	17.71	31.50	28.43	56.00	49.87
35	11.90	11.37	19.25	17.93	31.50	28.87	56.00	50.75
36	11.98	11.46	19.46	18.15	31.93	29.31	56.87	51.62
37	12.07	11.55	19.68	18.37	32.37	29.75	57.75	52.50
38	12.16	11.72	19.90	18.81	32.81	30.62	58.62	54.25
39	12.33	11.90	20.34	19.25	33.68	31.50	60.37	56.00
40	12.51	12.16	20.78	19.90	34.56	32.81	62.12	58.62
41	12.68	12.33	21.21	20.34	35.43	33.68	63.87	60.37
42	12.86	12.60	21.65	21.00	36.31	35.00	65.62	63.00
43	13.03	12.77	22.09	21.43	37.18	35.87	67.37	64.75
44	13.38	13.03	22.96	22.09	38.93	37.18	70.87	67.37
45	13.82	13.38	24.06	22.96	41.12	38.93	75.25	70.87
46	14.35	13.65	25.37	23.62	43.75	40.25	80.50	73.50
47	15.05	14.00	27.12	24.50	47.25	42.00	87.50	77.00
48	15.83	14.43	29.09	25.59	51.18	44.18	95.37	81.37
49	16.62	14.87	31.06	26.68	55.12	46.37	103.25	85.75
50	17.50	15.31	33.25	27.78	59.50	48.56	112.00	90.12

MONTHLY RATES

Issue Age	$100,000		$250,000		$500,000		$1,000,000	
	Male	Female	Male	Female	Male	Female	Male	Female
51	18.37	15.75	35.43	28.87	63.87	50.75	120.75	94.50
52	19.25	16.18	37.62	29.96	68.25	52.93	129.50	98.87
53	20.21	16.80	40.03	31.50	73.06	56.00	139.12	105.00
54	21.26	17.41	42.65	33.03	78.31	59.06	149.62	111.12
55	22.66	18.20	46.15	35.00	85.31	63.00	163.62	119.00
56	24.06	18.98	49.65	36.96	92.31	66.93	177.62	126.87
57	25.55	19.86	53.37	39.15	99.75	71.31	192.50	135.62
58	27.30	20.91	57.75	41.78	108.50	76.56	210.00	146.12
59	29.48	22.13	63.21	44.84	119.43	82.68	231.87	158.37
60	32.37	23.62	70.43	48.56	133.87	90.12	260.75	173.25
61	35.96	25.28	79.40	52.71	151.81	98.43	296.62	189.87
62	39.98	27.03	89.46	57.09	171.93	107.18	336.87	207.37
63	44.62	29.05	101.06	62.12	195.12	117.25	383.25	227.50
64	49.87	31.76	114.18	68.90	221.37	130.81	435.75	254.62
65	55.82	35.26	129.06	77.65	251.12	148.31	495.25	289.62
66	62.03	39.55	144.59	88.37	282.18	169.75	557.37	332.50
67	68.68	44.53	161.21	100.84	315.43	194.68	623.87	382.37
68	76.12	50.13	179.81	114.84	352.62	222.68	698.25	438.37
69	84.70	56.52	201.25	130.81	395.50	254.62	784.00	502.25
70	94.85	63.70	226.62	148.75	446.25	290.50	885.50	574.00
71	106.31	71.48	255.28	168.21	503.56	329.43	1000.12	651.87
72	118.82	80.06	286.56	189.65	566.12	372.31	1125.25	737.62
73	132.82	89.33	321.56	212.84	636.12	418.68	1265.25	830.37
74	148.66	99.31	361.15	237.78	715.31	468.56	1423.62	930.12
75	166.77	110.16	406.43	264.90	805.87	522.81	1604.75	1038.62

Other amounts available upon request. Premiums are based on applicant's age at nearest birthday. Policies are non-cancellable as long as premiums are paid, however, if the insured commits suicide within two years of the Policy Date, the benefit is return of premium. Premiums may be paid annually, semi-annually or monthly bank draft. (A no-cost medical exam may be required depending on age, health or amount of coverage desired). Premiums above are annual term, preferred rates. Policy Form No. PGART97NW1. Level Death Benefit to age 95. Premiums increase annually. All policies are issued and subject to underwriting by Great American Life Insurance Company®, P.O. Box 5416, Cincinnati, OH 45201-5416. POLICY NOT AVAILABLE IN ALL STATES.

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TOBACCO RATES

MONTHLY RATES

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	Male	Female	Male	Female	Male	Female	Male	Female
20-25	16.62	14.00	31.06	24.50	55.12	42.00	103.25	77.00
26	16.88	14.08	31.71	24.71	56.43	42.43	105.87	77.87
27	16.88	14.17	31.71	24.93	56.43	42.87	105.87	78.75
28	16.88	14.17	31.71	24.93	56.43	42.87	105.87	78.75
29	16.88	14.17	31.71	24.93	56.43	42.87	105.87	78.75
30	16.88	14.17	31.71	24.93	56.43	42.87	105.87	78.75
31	16.97	14.17	31.93	24.93	56.87	42.87	106.75	78.75
32	16.97	14.17	31.93	24.93	56.87	42.87	106.75	78.75
33	16.97	14.26	31.93	25.15	56.87	43.31	106.75	79.62
34	17.15	14.26	32.37	25.15	57.75	43.31	108.50	79.62
35	17.32	14.43	32.81	25.59	58.62	44.18	110.25	81.37
36	17.67	14.61	33.68	26.03	60.37	45.06	113.75	83.12
37	18.02	14.96	34.56	26.90	62.12	46.81	117.25	86.62
38	18.46	15.31	35.65	27.78	64.31	48.56	121.62	90.12
39	19.07	15.66	37.18	28.65	67.37	50.31	127.75	93.62
40	19.95	16.18	39.37	29.96	71.75	52.93	136.50	98.87
41	21.00	16.80	42.00	31.50	77.00	56.00	147.00	105.00
42	22.22	17.58	45.06	33.46	83.12	59.93	159.25	112.87
43	23.71	18.37	48.78	35.43	90.56	63.87	174.12	120.75
44	25.11	19.07	52.28	37.18	97.56	67.37	188.12	127.75
45	26.60	19.77	56.00	38.93	105.00	70.87	203.00	134.75
46	28.00	20.38	59.50	40.46	112.00	73.93	217.00	140.87
47	29.40	20.82	63.00	41.56	119.00	76.12	231.00	145.25
48	30.80	21.35	66.50	42.87	126.00	78.75	245.00	150.50
49	32.55	21.87	70.87	44.18	134.75	81.37	262.50	155.75
50	34.47	22.66	75.68	46.15	144.37	85.31	281.75	163.62

MONTHLY RATES

Issue Age	$100,000		$250,000		$500,000		$1,000,000	
	Male	Female	Male	Female	Male	Female	Male	Female
51	36.83	23.62	81.59	48.56	156.18	90.12	305.37	173.25
52	39.46	24.67	88.15	51.18	169.31	95.37	331.62	183.75
53	42.35	25.90	95.37	54.25	183.75	101.50	360.50	196.00
54	45.32	27.21	102.81	57.53	198.62	108.06	390.25	209.12
55	48.56	28.70	110.90	61.25	214.81	115.50	422.62	224.00
56	51.53	30.27	118.34	65.18	229.68	123.37	452.37	239.75
57	54.25	31.67	125.12	68.68	243.25	130.37	479.50	253.75
58	57.40	33.42	133.00	73.06	259.00	139.12	511.00	271.25
59	61.51	35.52	143.28	78.31	279.56	149.62	552.12	292.25
60	67.28	38.41	157.71	85.53	308.43	164.06	609.87	321.12
61	73.93	41.82	174.34	94.06	341.68	181.12	676.37	355.25
62	81.11	45.50	192.28	103.25	377.56	199.50	748.12	392.00
63	89.86	49.96	214.15	114.40	421.31	221.81	835.62	436.62
64	101.15	55.12	242.37	127.31	477.75	247.62	948.50	488.25
65	116.20	61.25	280.00	142.62	553.00	278.25	1099.00	549.50
66	136.50	68.25	330.75	160.12	654.50	313.25	1302.00	619.50
67	161.35	75.95	392.87	179.37	778.75	351.75	1550.50	696.50
68	188.38	84.52	460.46	200.81	913.93	394.62	1820.87	782.25
69	215.33	94.50	527.84	225.75	1048.68	444.50	2090.37	882.00
70	239.92	106.13	589.31	254.84	1171.62	502.68	2336.25	998.37
71	263.63	119.26	648.59	287.65	1290.18	568.31	2573.37	1129.62
72	287.96	133.70	709.40	323.75	1411.81	640.50	2816.62	1274.00
73	310.71	149.53	766.28	363.34	1525.56	719.68	3044.12	1432.37
74	329.52	167.38	813.31	407.96	1619.62	808.93	3232.25	1610.87
75	342.03	187.51	844.59	458.28	1682.18	909.56	3357.37	1812.12

Other amounts available upon request. Premiums are based on applicant's age at nearest birthday. Policies are non-cancellable as long as premiums are paid, however, if the insured commits suicide within two years of the Policy Date, the benefit is return of premium. Premiums may be paid annually, semi-annually or monthly bank draft. (A no-cost medical exam may be required depending on age, health or amount of coverage desired). Premiums above are annual term, standard rates. Policy Form No. PGART97NW1. Level Death Benefit to age 95. Premiums increase annually. All policies are issued and subject to underwriting by Great American Life Insurance Company®, P.O. Box 5416, Cincinnati, OH 45201-5416. POLICY NOT AVAILABLE IN ALL STATES.

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INVESTING

Index Funds Show Their Mettle In Market Swings

By Randy Myers

By now, most investors know that mutual funds that passively buy and hold every stock in an index often do better than funds whose managers try to pick only the best stocks.

Funds that invest in the Standard & Poor's index of 500 stocks, for example, have on average outperformed actively managed large-company stock funds by about five percentage points per year for the past four years, according to Morningstar Inc., a Chicago-based research firm.

Last year was supposed to be different. When the stock market took a nose dive in the third quarter, it gave active managers a chance to strut. After all, if they trail index funds in an up market like the one we had enjoyed since 1995, shouldn't they beat them in a down market?

There are good reasons why they should have. First, active managers typically hold about 5 to 10 percent of their total assets in cash. When the stock market sinks, interest earned on this cash helps to offset losses in the stock portfolio.

Index funds have no cash cushion. Because they stay fully invested at all times, their whole portfolio mindlessly tracks the market lower, falling when it falls.

Many active managers also have an advantage, it's thought, if they happen to follow a "value" strategy. Value managers buy stocks that appear to be cheap in relation to their earnings potential or book value.

In a down market, investors have presumed that value managers would shine: Since the stocks in their portfolio were cheap to begin with, they wouldn't have as far to fall if the market tumbled.

"That's one of the last bastions of defense for the managed-fund industry—that they will cushion stock drops," observes Jerry Tweddell, publisher of the NewFund Focus newsletter and co-author of *Winning With Index Mutual Funds* (Amacom, $24.95).

Unfortunately, none of this happened in last year's third quarter. When the S&P 500 fell 10.3 percent, S&P 500 index funds lost an average 10.6 percent—exactly what you would expect. (Index funds usually trail indexes by a fraction of a percentage point because of their operating costs.)

But actively managed large-company stock funds lost an average of 11.7 percent, according to Morningstar, and managers of large-company value stock funds did even worse, losing an average of 12.6 percent. U.S. stock funds in general lost 15.2 percent.

Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.

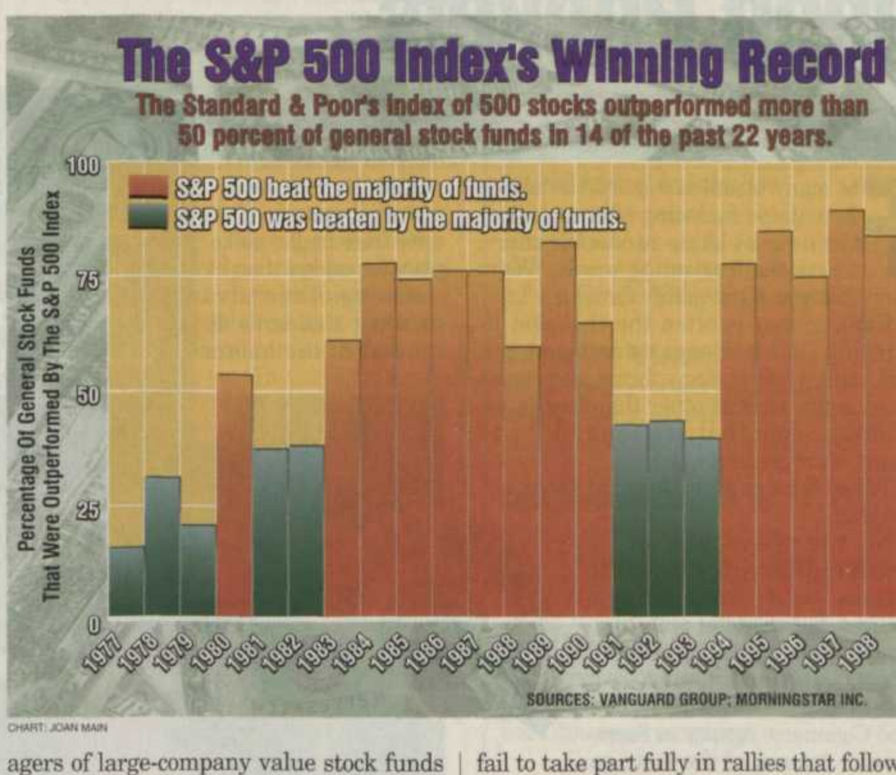

CHART: JOAN MAIN

Index Funds' Added Advantages

Some observers think the third quarter was an anomaly. In their view, investors were so obsessed with owning the biggest and most profitable (that is, safe) companies during the third quarter—in other words, the top tier of the S&P 500—that nobody with a diversified portfolio could have expected to do as well as the index.

But in the third quarter, even small-company index funds outperformed their actively managed counterparts. That reinforces the view of Vanguard Group fund manager Gus Sauter that index funds enjoyed other advantages in the third quarter, —advantages that they retain in down as well as up markets.

"Active managers do have a cash cushion, and in a bear market it does help them," says Sauter, who runs the Vanguard 500 Index Fund. But he points out that history has shown that active managers often have the least amount of cash in their portfolios at market tops and the most at market bottoms—exactly the reverse of what would be optimal.

That means not only that they sacrifice the full benefit of their cash cushion when the market starts to fall but also that—as occurred in the second half of 1998—they fail to take part fully in rallies that follow.

"Investors think their active managers will know when to get them out of the market, but the fact is that it's virtually impossible to know [in advance] when the market has topped or when it's at a bottom," says W. Scott Simon, an investment adviser with Silver Oak Advisory Group in Encino, Calif., and the author of *Index Mutual Funds: Profiting from an Investment Revolution* (Namborn Publishing, $26.95).

The Test Of Time

All this suggests that indexing guru Jack Bogle, chairman of Vanguard, is right when he argues that the low cost of index investing will, over time, almost always outweigh any benefits associated with active management.

Consider that the most efficient S&P 500 funds operate at a cost to investors of under 0.25 percent of assets and generate very little in the way of trading expenses. By comparison, the average domestic stock fund charges about 1.4 percent of the investor's assets and, because it trades much more frequently, incurs transaction costs approaching an additional 1 percent.

"Over time," says Sauter, "a disadvantage of 2 to 2.5 percent is huge. And in a protracted bear market, you've just got those costs grinding away. It's a disadvantage that active managers will always have."

But it's one you can avoid when you put a portion of your money into index funds. NB

FINANCE

Foreign Investors' Deep Pockets

The lure of the U.S. economy makes sources of financing overseas a viable option for small businesses.

By Juan Hovey

For many business owners, the search for outside financing often begins at the nearest bank—and ends there, too, in the frustrating words, "We're sorry, but you don't qualify for a loan."

Bank money is often the cheapest financing that business owners can get, but capital takes many forms and comes from many sources other than banks, including some that are unfamiliar to many entrepreneurs.

Take, for example, capital from overseas.

No one keeps tabs on how much capital American businesses raise from foreign sources, but the total probably grows every year, according to Lloyd C. Day, an assistant secretary at the California Trade and Commerce Agency in Sacramento. An arm of the state government, the agency fosters contacts between California businesses and potential investors overseas.

Day says he believes there may be hundreds of millions of dollars available to U.S. companies from foreign sources. "Money comes from institutions and from high-networth individuals overseas because U.S. business is a safe haven from a political standpoint—and because investors like the growth they see here."

Put another way, the U.S. economy in general, and small and medium-sized businesses in particular, present foreign investors with opportunities that are unavailable anywhere else in the world, according to Mark Hyman, managing director of global corporate finance in New York City for Arthur Andersen LLP, an international professional-services firm.

U.S. Attractions

Hyman says Americans understand the industries that will fuel the global economy as the new century begins—computers, software, telecommunications, biotechnology, and electronic commerce, among many others. Indeed, Americans *invented* these industries and will very likely invent others.

This story is part of a continuing series on ways for small companies to locate the financing they need to run their businesses.

Also, Hyman says, the social, political, and legal systems of the United States, despite their faults, make this country a safer place for capital than most other countries.

Among other advantages, U.S. accounting standards dictate the form and content of the balance sheets, income statements, and other documents by which outside investors can judge the risk and performance of any company they want to back, in essence making the operations of the company transparent to the outside investor.

Furthermore, investors who hit it big in the United States often hit it really big, and the new wealth created lures more investors from all over the world.

In short, Hyman says, foreign investors like their chances here, which is why each year they send a good deal of capital to these shores looking for work.

The trick is to find it. And the experience of Jerry Chang, CEO and co-founder of Clarent Corp. in California's Silicon Valley, holds some important lessons for other business owners on the prowl for outside financing.

Linking With Hong Kong

Clarent makes hardware and software used to transmit telephone communications over the Internet. In essence, the company's technology transforms the sounds carried as waves over conventional copper phone lines into digital information for Internet transmission. Privately held, the company employs about 100 people at its headquarters in Redwood City, south of San Francisco, and in six foreign countries.

PHOTO: ©ROBERT HOLMGREN

Extensive networking *helped Jerry Chang, right, CEO of technology firm Clarent Corp., raise millions of dollars from Hong Kong investors, says Clarent executive Richard J. Heaps.*

A year ago Chang raised more than $10 million in a round of financing led by the Hong Kong office of Goldman Sachs, a major New York City investment-banking firm. About $3.5 million came from Goldman Sachs itself, investing on its own account, and the rest came from private investors in Hong Kong, says Richard J. Heaps, Clarent's chief financial officer and chief operations officer.

How did Chang make the Hong Kong connection? "It wasn't science," says Heaps. "It was art. Jerry wanted investors who would be in it for the long term, and he spoke to venture capitalists in Silicon Valley and to some strategic investors on the West and East coasts.

"It was a process of leveraging off of who you know and what you know—and how to go about finding out what you need to know."

Chang already knew that foreign investors like American business; in founding Clarent in 1996, he and his partner—Mike Vargo, Clarent's chief technology officer—raised seed capital from a Taiwanese investor who is a personal acquaintance of Chang, himself a native of Taiwan.

The deal with Goldman Sachs proceeded just like any deal with U.S. investors, Heaps says. In early 1988, Chang wrote a business plan detailing Clarent's product and his strategy for taking it to market.

He networked extensively, identified a handful of potential investors, and negotiated with two bidders, Heaps says. He closed the deal with Goldman Sachs and the Hong Kong investors—most of them wealthy individuals—last May.

"We had a commercially viable product, and it was time to scale up our operations," Heaps says. "It took a lot of perspiration and networking.

"We were fortunate in our timing because the market we wanted to attack recognized Internet telephone technology as a legitimate product."

Through the Hong Kong connection, Chang got what investment bankers term patient capital—so called because his backers, unlike those who invest in most other start-ups and young growth companies, did not insist that he cash them out by going public or selling out to a bigger company in three to five years. Instead, the Hong Kong investors, like Chang, saw the potential for long-term growth in Internet telephony, and they wanted in on it, Heaps says.

"There was nothing unique about the fact that the source of the funding was foreign, and there were no legal or cultural barriers," Heaps says. "Other than the long distance, the dynamics of actually raising the financing were the same. The job was simply to make sure that our prospective investment partners had a clear picture of the opportunity."

> **"When you're talking about capital from Asia, you have to make connections personally through foreign chambers of commerce, through banks with overseas operations, and through the many Asian-American business associations."**
>
> —Lloyd C. Day, California Trade and Commerce Agency

Ties On The Coasts

On the West Coast, Asian capital comes largely through intermediaries with family, personal, and professional ties in countries such as Taiwan and China and in cities such as Singapore and Hong Kong. On the East Coast, capital comes mostly through the big investment-banking houses and through private equity groups with ties to investors in Europe.

"In California, you have to network among diverse populations," says the Trade and Commerce Agency's Day. "Especially when you're talking about capital from Asia, you have to make connections personally through foreign chambers of commerce, through banks with overseas operations, and through the many Asian-American business associations.

"It takes persistence and homework," he adds, "but California is the center for venture capital in the world, and a lot of investors want to partner here so they can create their own venture-capital communities at home. They want to get in on all the activity here."

Things You Need To Know

Heaps has some final words of advice for business owners seeking capital.

Don't assume that your only sources of capital will be domestic, and know why your business presents a good opportunity to investors, whether they're foreign or domestic, he says.

In addition, know what you need from your investors—for example, connections to your customers or to potential strategic partners, or board members who can bring wide expertise in your industry.

Last but not least, Heaps adds, do due diligence on any investor who bids on your proposal, because the relationship will be crucial to your success.

"Your investors have to know what they're getting into, and so do you," Heaps says. "Our investors are behind us, and they're good critics of our plans. We couldn't be happier." NB

Juan Hovey of Thousand Oaks, Calif., is a financial columnist for The Los Angeles Times.


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INSURANCE

Don't Overlook This Key Policy

Providing coverage for top executives can help make sure things keep running smoothly if one of them dies unexpectedly.

By Robert L. Jacobson

For many people, says Byron Udell, term insurance has become so inexpensive lately that "it's almost silly not to have it."

But as president of AccuQuote, a kind of one-stop shopping mart for life insurance in Northbrook, Ill., Udell is particularly enthusiastic these days about a form of term coverage known as key-person insurance.

Along with many other agents and financial advisers, he's convinced that today's bargain-basement prices for term policies represent an unusual opportunity for small businesses. Small firms can be protected against something their owners rarely care to think about: the unexpected death of one or more of their most valuable employees—perhaps even themselves.

Think for a moment what might happen to your company, and to people with a stake in its success, if your most productive sales manager were to die tomorrow. How quickly could you pick up the pieces? What would happen to all the personal contacts, not to mention the revenue stream, that the sales manager had generated?

How would company morale be affected? Would other valuable employees become nervous and start looking for new jobs? How long would it take you to replace the person and to bring a new sales manager up to speed?

And suppose you were the one to die. What would happen to the company? To top executives and other employees? To your family?

Difficult Questions

Those are tough questions for individuals to contemplate, observes Mark R. Harris, an insurance agent in Boca Raton, Fla. And that helps explain why people tend not to take the initiative when it comes to acquiring life insurance, he says. Most people simply "don't like to talk about losing their lives," Harris notes, so life insurance generally is something that has to be sold to them.

Business owners are no exception. But Udell, whose company's Internet site is at *www.accuquote.com*, points out that a decision to buy key-person insurance can be so important that it spells "the difference between whether or not the company survives."

At the law firm of Nagle & Zaller in Columbia, Md., Michael P. Nagle says he recently became interested in key-person insurance after making an associate, Craig Zaller, his partner. As part of what is called a buy-sell agreement, the two purchased 20-year term-insurance policies on each other's lives. Now, if one partner were to die prematurely, the other would have the wherewithal to acquire the rest of the firm.

"Neither one of us wanted to be in a position where we would have to fund a buyout out of pocket," Nagle explains. "Without such protection, both lawyers would have been taking a hell of a chance."

PHOTO: ©CHARLES KNEYSE—BLACK STAR

Term life insurance *on financial planner Stewart Koesten, right, was bought by his firm to ease the concerns of employees such as Matthew D. Starkey about whether the business would survive if Koesten died.*

From a cost-benefit standpoint, the arguments for acquiring key-person coverage seem compelling, especially in the case of term insurance. With its coverage extending over a specified length of time, term insurance typically promises the biggest payoff per premium dollar. And with level premiums set in advance for five-year, 10-year, or even 20-year policies, the annual cost can be a known quantity for the entire period.

Whole life insurance, on the other hand, remains in force throughout a person's lifetime and, like various other forms of so-called permanent insurance, generally accumulates a cash value from which loans and withdrawals are possible down the road.

In addition, companies can purchase policy "riders" that allow them to transfer coverage from one key person to another, often a plus when there are older employees. But whole life's relatively high price tag, especially for young employees, can be a stumbling block for many businesses.

More expensive still—and even less popular—is disability insurance. Experts say that's highly unfortunate because the likelihood of a key employee's becoming seriously disabled far exceeds the chances of his or her dying unexpectedly.

To be sure, there are other techniques for insuring key employees—some with possible tax consequences or other technical ramifications that might call for the services of lawyers, accountants, or other advisers.

But for simplicity and outright cost savings, probably none of those other options can compete with term insurance. It is, in fact, a special breed.

Udell, whose company compares the policies and prices of hundreds of insurance companies, gives this illustration: For as little as $440 a year for 20 years, a 40-year-old male with no health impairments or other negative characteristics (such as a family history of heart disease before the age of 60 or a fondness for bungee jumping) can be covered by a pol-

icy that would provide $500,000 to his company if he died.

Remarkably, the cost of some term insurance has dropped by more than half in the past five years. Udell attributes the decline mainly to people's increasing longevity and to growing competition in the insurance industry. Today's options are so appealing, he says, that a person who bought term coverage as recently as a year ago might be well-advised to shop around for a better deal and then simply drop the original policy.

PHOTO: T. MICHAEL KEZA

Law partners *Michael P. Nagle, left, and Craig Zaller recently bought term life policies on each other so that if one dies, the other can use the proceeds to buy the deceased partner's interest.*

While a company must pay for the insurance with after-tax dollars, for instance, the proceeds typically are tax-free.

An Array Of Benefits

Imagine what half a million or a million tax-free dollars could mean to your company if it suddenly lost the services of a key executive.

David Hepple, a financial associate in the Baltimore office of The Equitable Life Assurance Society of the United States, headquartered in New York City, points to potential benefits such as these: Business loans could be repaid, especially if lenders became concerned about the company's loss; the company could draw on the proceeds to pay outstanding bills; lost sales

Not Much Interest Yet

Small businesses have many concerns besides insurance, of course, so low rates may not be sufficient justification for them to purchase key-person plans. Indeed, while there are no definitive national data on how well such policies have been selling, insurance-company representatives say they believe that the great majority of small businesses have not yet bought any.

Supporting that impression are results from a study of small businesses by LIMRA International, a marketing-research organization in Hartford, Conn., that is financed by insurance companies.

The 1994 study, the latest of its kind, found that only half of nearly 1,600 businesses had formal written plans for continuing operations after the owner's death—and that of those companies, only 56 percent had purchased life insurance as part of the plans.

The low level of interest in key-person insurance persists, moreover, even though term insurance collectively has been grabbing a steadily rising share of new life-insurance sales across the country for more than a decade.

According to LIMRA, the "new-premium market share" of all term insurance grew from 11 percent in 1985 to about 18 percent in 1997. During the same period, whole life insurance—historically a more popular product overall—has seen its share of new sales decline steadily from 47 percent to 38 percent.

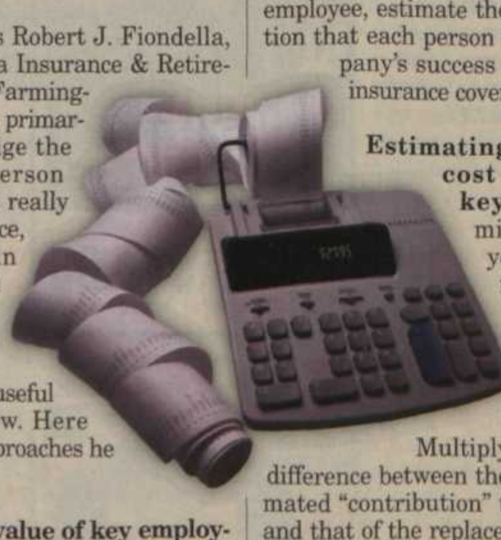
LIMRA researchers say that stems largely from the falling cost of term insurance and from the growing popularity of "variable universal life" policies, whose benefits and cash values vary according to the performance of investments selected by the policyholder.

But while the price of key-person insurance can be attractive, insurance agents and financial planners cite many considerations other than premium rates that businesses should weigh in deciding about such coverage. As might be expected, most relate to the bottom line.

Calculating Your Insurance Needs

If you're interested in owning key-person insurance but aren't sure how much to buy, how can you come up with a suitable amount?

The answer, says Robert J. Fiondella, founder of Fiondella Insurance & Retirement Planning in Farmington, Conn., depends primarily on how you judge the "value" of the person you're insuring. It's really more art than science, he acknowledges in an article posted on his firm's World Wide Web site (at *www.fiondella.com*), but there are some useful guidelines to follow. Here are two common approaches he describes:



Estimating the value of key employees in relation to your company's net profits. Calculate employee "earnings power" by subtracting a portion of the company's net worth or book value—say 7 percent—from its average annual after-tax profits. Multiply the result by the percentage points in a standard capitalization rate, such as 5 percent.

In this manner, a company valued at $500,000 and showing $85,000 in after-tax profits would have employee earnings power of $50,000 (that is, $85,000 minus 7 percent of $500,000) and a resulting insurance target of $250,000 (that is, $50,000 multiplied by 5). For more than one key employee, estimate the relative contribution that each person makes to the company's success and apportion the insurance coverage accordingly.

Estimating what it would cost to replace the key person. Determine the number of years it might take for the replacement to reach the same level of proficiency and profit making for your company. Multiply the result by the difference between the key person's estimated "contribution" to after-tax profits and that of the replacement. For total insurance needs, add to the new figure your projected costs for recruiting, hiring, relocating, and training the new person.

Fiondella also cites methods linked to the key employee's salary. In one of these, a discount rate of 8 percent is applied to all future salary payments of a person who is 20 years from retirement and currently earns $50,000 a year. This approach produces an insurance need of nearly $500,000.

and diminished profits could be at least partially offset; and funds would be available to recruit and train a new person.

Hepple and other insurance representatives say key-person insurance can also improve a company's standing with lenders. Robert J. Fiondella, who heads an insurance and retirement-planning agency in Farmington, Conn., says it's "not unusual for a lender to require a business to take out insurance on the life of key individuals or owners" to make certain that a debt will be repaid.

Depending on the circumstances, however, lenders may not demand such coverage. At Chase Manhattan Bank in New York City, Michael Vittorio, vice president for small-business financial services, says key-person insurance usually is not required of companies with annual sales of less than $3 million.

For larger companies, decisions at Chase about whether to require the insurance are left to a bank officer's discretion.

But Vittorio concedes that if a lender had any doubts about a company, the presence of key-person insurance could carry a loan application "over the wall."

Another advantage of such insurance, says Diane Blakeslee, an independent financial planner in San Luis Obispo, Calif., is that the proceeds can be used to buy stock held by surviving family members of a deceased business owner. She calls it insurance against unwanted "meddling" in the company's management.

The pros and cons of key-person insurance for small businesses may come down to comparing the cost of premiums with the much heavier costs that can emerge when there is no protection.

And Debra L. Morrison, head of an investment and financial-planning firm bearing her name in Fairfield, N.J., sees benefits in the way key-person insurance affects the "psychological realm" of people's reactions when a key employee dies. If a company is covered by insurance, she says, employees are more likely to feel confident that their jobs are secure.

That was precisely the point recently at Koesten Hirschmann & Crabtree, Inc., a small financial-planning company in Overland Park, Kan. Stewart Koesten, president of the three-year-old company, says he overlooked key-person insurance in the firm's initial planning, only to discover a few months ago that employees were worried about their vulnerability in the event of his death. He says they told him: "If you die, we're out of work." As a result, the company now owns a term-insurance policy on Koesten's life.

In the final analysis, the pros and cons of key-person insurance for small businesses may come down to comparing the cost of premiums with the much heavier costs that can emerge when there is no protection.

The Equitable's Hepple has addressed this point in *The Business Monthly* of Howard County, Md. If you buy insurance and the key person lives until retirement, he says, you might conclude that you made a small mistake. But if you don't have the coverage and the key person dies, it probably was a big mistake.

Your company can "absorb small mistakes," Hepple adds. Big mistakes, on the other hand, can "absorb your company." NB

MANAGING

Eight Steps To Success In Negotiating

By Janine S. Pouliot

ILLUSTRATIONS: WILLIAM T. COULTER

Steven Schussler started negotiating from a position of weakness with the Mall of America in Bloomington, Minn., about opening his brainchild, Rain Forest Cafe.

"I was negotiating from deep under," he concedes. His once highly successful themed restaurant, JukeBox Saturday Night in Minneapolis, was bankrupt, and when he approached the Mall of America in 1992 seeking space to open his new restaurant and retail store, he was starting from scratch.

Schussler also realized that his new idea was unconventional. He wanted to create an experience that simulated a rain forest—with blasts of cool mist, lightning and thunder, banyan trees, trumpeting elephants, and the aroma of tropical flora. He knew it wouldn't be an easy sell.

To create inroads, Schussler implemented one of the cardinal rules of successful negotiating: He got to know everyone connected with the party he would face in the negotiations.

"It took 2½ years, but I developed a relationship with the family, friends, and business associates of the individuals with whom I was negotiating," says Schussler. "That's important because people are easily influenced by those around them."

Schussler's instincts paid off. Today, Rain Forest Cafe has 29 locations around the world and has won more than a dozen awards for originality and innovation. And Schussler's success can be attributed largely to a sound understanding of the basic steps to winning negotiations.

Skills For Modern Times

Good negotiating skills are particularly important in today's volatile business environment, says Kare Anderson, president of The Compelling Communication Group, a research, licensing, and marketing firm in Sausalito, Calif.

"We live in a time-starved culture," says Anderson, who is also the author of several books, including *Resolving Conflict Sooner* (The Crossing Press, $10). "Americans are the least likely to plan ahead. We're very impulsive because we're trying to get more done faster. As a result, we get into conflict sooner. We end up making agreements that don't stick."

Anderson says that taking a slower approach in order to understand the elements of successful negotiating can ultimately save time and produce better results.

Sanford Jaffe, an attorney and mediator at the Rutgers University Center for Negotiation and Conflict Resolution in New Brunswick, N.J., notes: "There's also been a subtle shift away from litigation and the courts to use negotiation to resolve conflict.

"Business people have learned that it's

Janine S. Pouliot is a free-lance writer in Green Bay, Wis.

Taking the time to learn deal-making skills before you enter business talks is the best way to arrive at a successful conclusion.

very expensive to enter into litigation. And it takes a lot of time away from running the business," adds Jaffe, who is also a professor at Rutgers' Edward J. Bloustein School of Planning and Public Policy.

Consequently, employing the right negotiating tactics is more important than ever. Following are eight fundamental steps to winning at the negotiating game, culled from business people and experts in the field:

1. Take stock of your weaknesses.

Not everyone is born a great negotiator. In fact, most people don't have a clue about how to get what they want—other than to make demands and dig in their heels.

"People let [negotiations] get away from them because they haven't figured out ahead of time how to handle problems," says Jaffe. "They resort to using emotion instead."

Before you're faced with a negotiation, take time to learn the basics. One way to do that is to sign up for a reputable training session. Many trade and business organizations, colleges and universities, and private consulting firms run seminars on negotiating.

In addition, there are dozens of books on the market covering this topic.

2. Determine your bottom-line goal.

"It's a lot easier to deal with a jerk who knows what they want than a nice person who doesn't," says Anderson.

She adds that many people get confused over the number of issues introduced in a negotiation and lose sight of their bottom line.

Before you can negotiate effectively, you have to identify the one thing you must come away with. "Not five or 10 things," Anderson says. "It's got to be one tangible, concrete objective. If you can't tell whether or not your goal has [been achieved], then it's not solid enough."

Paul Geffner, co-founder and former owner of Captain Video, a California video-store chain, and founder and owner of Escape From New York Pizza, a restaurant chain based in San Francisco, says, "I always prioritize [in a negotiation] so I know what the one or two deal-breakers are."

Before he starts negotiating with suppliers, banks, and others, Geffner determines which issues he would back down on to achieve his main objective.

For instance, he says, "I'll never sign a lease where the landlord gets a percentage of the gross. If I'm working hard, why should they get a portion of my success? But I'll compromise on a rent increase based on the Consumer Price Index."

3. Learn as much as possible about the other party.

The more you know about the person with whom you're negotiating, the better off you'll be. "Do your homework," suggests Neil Lerner, director of the Small Business Development Center at the University of Wisconsin School of Business in Madison.

If you're negotiating with a business, collect company brochures, annual reports, trade journals, and newspapers that cover local business news, Lerner says. In addition, you can search the Internet and commercial databases for information on who else might be negotiating for the same thing you're after, Lerner notes.

Don't be shy about asking around. "Talk to other companies you know [that] have dealt with" the person with whom you're negotiating, says political scientist and mediation specialist Linda Stamato. "Get a feel for their reputation." Stamato is a mediator at Rutgers' Center for Negotiation and Conflict Resolution and a professor at the Bloustein School.

4. Establish a relationship before the negotiation begins.

The worst place for the first meeting with the individuals with whom you're negotiating is the negotiation table. "Try to get to know them on a personal level," says Lerner.

Paul Fox, president of Fox Performance Training, a firm in Ellington, Conn., that specializes in negotiation training for managers, suggests being upfront about negotiation issues.

"Tell the other party you'd like to have a pre-meeting so you can get acquainted," Fox says. "Let them know you realize this is an important negotiation for both of you and you believe both can benefit by getting a sense of how each other operates.

"Explain that you want to help them achieve their goal as much as you want to achieve your own."

Arrange a casual lunch or dinner, pick the other party up at the airport, or just chat over the phone.

It also can be helpful if, as Rain Forest Cafe's Schussler advises, you get to know the people who are nearest the other party.

"Most people skip this step, but this

minor investment of time can really pay off," Fox says.

5. Create and stick to an agenda.

Negotiations often assume a life of their own, veering off into areas unrelated to the core objectives of both parties. Formulating a blueprint helps keep the discussion on track and reduces the chances of extraneous issues working their way in. For the blueprint to be acceptable, however, both parties must have input.

"Ahead of time, lay out what you'd like to see happen," says Stamato. "Jointly develop a flexible, reasonable plan outlining what you want to talk about and how to go about making that happen."

Make a copy of your consensus and distribute it to the members of both negotiating teams. That way, if the subject jumps the tracks, you can call attention back to the plan.

However, it may not be a good idea to make your itinerary too rigid, warns Stamato. Don't do anything that forces the other party into a corner and makes the other person feel threatened.

> **"Stalemates usually develop over small things, not the large matters. Fear and uncertainty are often what kills the deal."**
>
> —Michael Hoesly, Founder and Principal, Hoesly and Co.

6. Don't let the talks get personal.

Emotions can run high when there's a lot at stake, and it's easy to vent frustration by lashing out at the other party. If the other party starts down this path, the best approach is to sit back and listen, says Lerner.

"Just don't get into it," he says. "Don't cave in to the other person. Refuse to fight" on their level.

Jot down what the other party is saying. That will often reveal clues about what's really bothering the other party besides the issues on the table.

"A good tactic is to increase the number of variables over which you're negotiating," Lerner adds. For example, if both parties are hot under the collar over price, try focusing on the services that accompany that price.

"Maybe you can stage deliveries over time rather than insisting that the other party take all the product at one time," says Lerner. "Or perhaps you can provide extra training—not just about your product but about the industry itself. These things have a value attached to them. Spread out your range of negotiable items."

7. If there's a stalemate, find the underlying cause.

"Stalemates usually develop over small things, not the large matters," says Michael Hoesly, founder and principal of Hoesly and Co. in Madison, an intermediary and adviser to companies seeking strategic partnerships or seeking to buy or sell firms. "Fear and uncertainty are often what kills the deal," he says.

Hoesly cites a case in which an acquisition was about to be clinched. At the last minute, the potential buyer refused to extend medical coverage to the owner's wife, who had a history of cancer. The deal began to unravel.

Says Hoesly: "The complete stalemate really wasn't about the insurance issue. The owner thought the buyer was being cheap toward his sick wife. He was really afraid his wife's cancer would return. The buyer thought the seller was being unreasonable asking for unlimited benefits. But his real fear was that the magnitude of the claim would bankrupt him."

After talking through their anxieties, the two parties reached a negotiated settlement placing a ceiling on the dollar amount of medical claims reimbursed.

8. When a deadlock looks hopeless, buy time.

If there's a deadlock, experts suggest, take a timeout to think about what's been said. Break for coffee or say that you must go back to your office to confer with others. Take the time to review what you've been arguing about and try to approach it another way.

When all else fails, you can bring in an impartial third party to act as a counterbalance. "It helps to have someone present who's not impassioned about the issue," notes Hoesly. A professional mediator agreed upon by both parties often can break a deadlock and get negotiations back on track.

As the experiences and suggestions of business people as well as specialists in the field indicate, negotiators are made, not born.

With careful forethought and perhaps a measure of training, just about anyone can develop the ability to win the best deal possible. NB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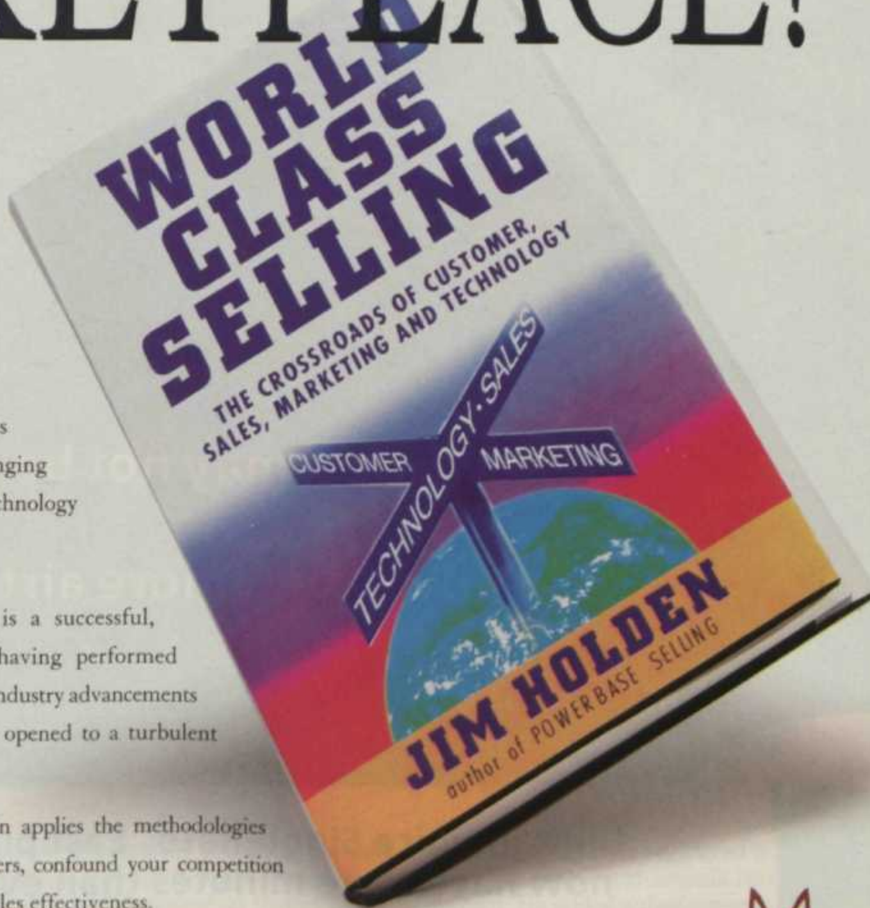

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Avoid Getting Stung By An Internet Scam

Devilishly enticing schemes on the World Wide Web are ensnaring companies and customers alike.

By Tim McCollum

The offer looks too tempting to pass up: a complimentary vacation to sunny Florida or the Caribbean. Is the promotion genuine? Or is it too good to be true?

Last summer hundreds of consumers discovered the hidden charges of certain tropical-vacation offers when they opened their credit-card bills.

According to consumer and law-enforcement agencies in Pennsylvania, Texas, and Wisconsin, a travel agency in Casselberry, Fla., called Travel Group International Inc.—using its World Wide Web site, Internet newsgroups, and faxes sent to prospects—misled consumers by offering free or low-cost vacations that allegedly were anything but.

Individuals who took advantage of the offers said they subsequently found they had been charged on their credit cards for up to $500 for taxes, port fees, and other expenses.

Many consumers also said they were not told they would have to pay their own air fares to vacation destinations.

In a settlement with the Pennsylvania attorney general, the Florida travel company agreed to provide full refunds to Pennsylvania customers but was not required to admit any wrongdoing. The company shut down its original Web site but remains in business. (The firm did not return phone calls from *Nation's Business.*)

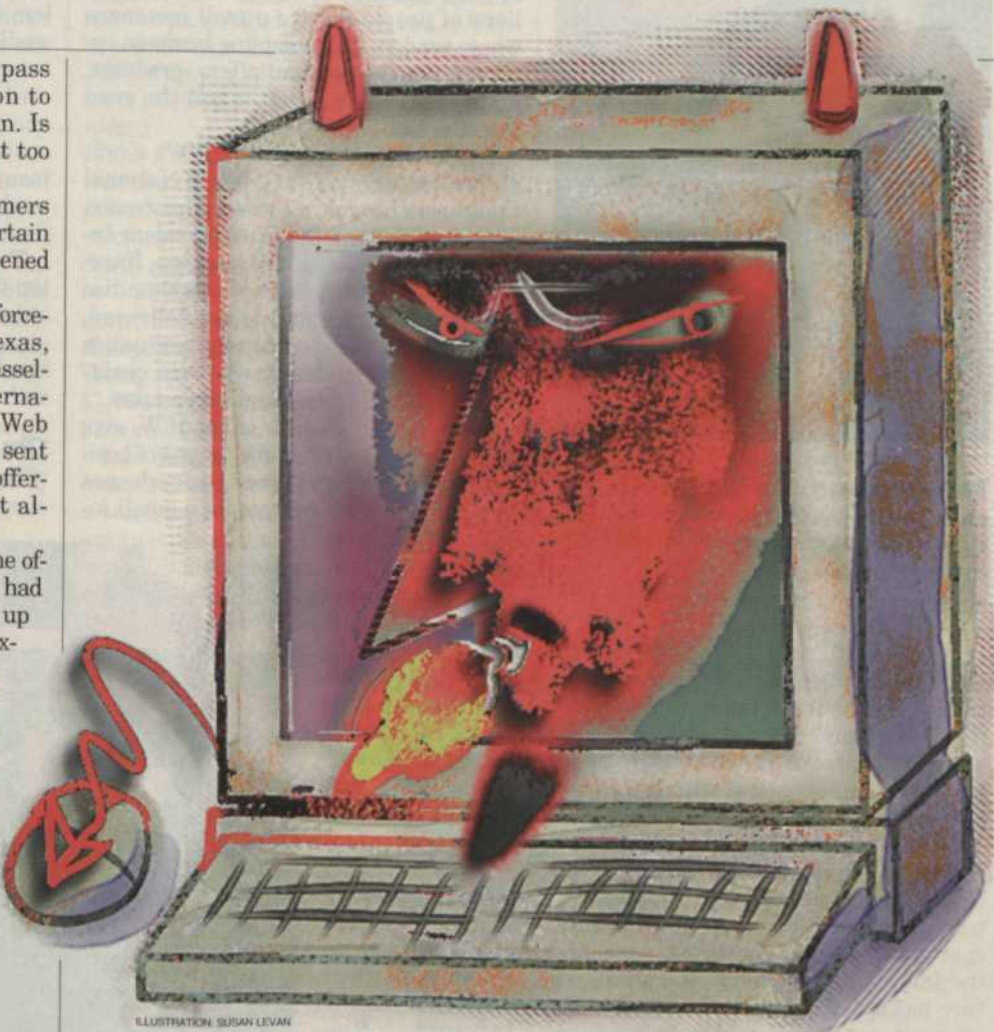

ILLUSTRATION: SUSAN LEVAN

Nonetheless, when consumers were complaining about the Florida travel company, travel-agency owner John Werner of Hoffman Estates, Ill., bore some of the brunt. Werner has no connection with the Florida company or with any of its travel offers. But his agency, like the Florida firm's, is called Travel Group International, and it had just established its own Web site last spring when it started to get calls from customers who had booked trips with the Florida company. At the peak of the confusion, Werner's agency was fielding a dozen calls a day.

"They were trying to call this company to back out of the deal, but they couldn't find any way to contact it," Werner says. "Most people weren't rude to us. ... For the most part we weren't dealing with angry people. They were just frustrated."

Even so, the number of calls was a nuisance for Illinois-based Travel Group International, and the potential threat to the firm's good name was even more troubling.

Werner, Travel Group's president, responded by contacting the Illinois State Police and the Florida attorney general's office, but he was informed that there wasn't much that could be done about the electronic offers.

Florida officials told Werner that they had received more than 100 complaints about the Florida-based Travel Group International, he says, and that the company was licensed to do business in the state. They further told him, he says, that since he wasn't a customer of the Florida firm, they could not act on his complaint; neither could they do anything about the firm's name, which is registered in Florida.

Werner took what actions he could on his own. He added a disclaimer to his Web site to tell visitors the two travel firms are not affiliated. That helped to cut down on the number of calls and e-mails, but Werner and his employees are still explaining the situation to customers allegedly duped by the Florida-based offers.

Schemes Of The Past Resurface

The free vacation is just one of many questionable or fraudulent offers that are proliferating on the Internet. In fact, experts say, the Internet is driving the comeback of many of the oldest business scams, including investment fraud, business-opportunity deceptions, and pyramid schemes.

"A lot of the old frauds are once again

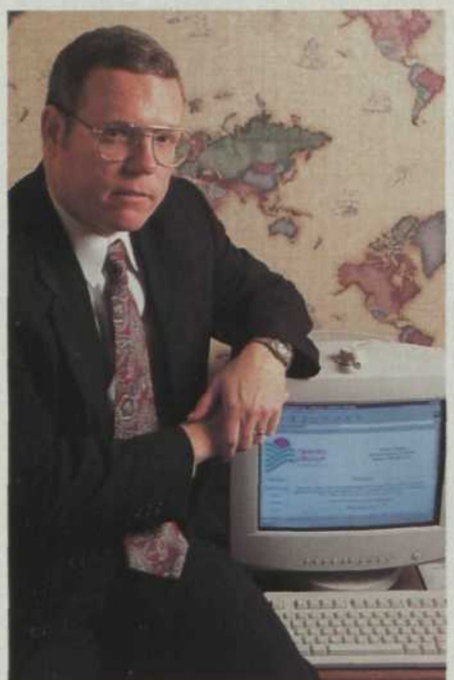

PHOTO: ©TODD BUCHANAN

Travel-agency owner *John Werner was mistakenly targeted—via the Internet—by another agency's customers voicing complaints about dubious practices.*

alive and well," says Jodie Bernstein, director of the Bureau of Consumer Protection at the Federal Trade Commission (FTC). "Pyramid schemes are the best example of that. We'd seen that they had largely disappeared. But with the advent of the Internet, they've reappeared."

Bernstein says the Internet has made it possible for fraudulent operators to reach people worldwide easily and inexpensively using Internet devices such as Web sites, chat rooms, e-mail, and newsgroups. And the Internet's anonymous and global nature has created new challenges for government regulatory and law-enforcement agencies to trace culprits.

Since 1994, the FTC has brought 58 enforcement actions—lawsuits or warnings that resulted in settlements—in its efforts to combat Internet-based fraud. But the amount of fraud and the number of complaints are growing as rapidly as the Internet itself.

In February, the FTC and law-enforcement agencies in 14 states sued 43 credit-repair firms on grounds that they were offering to issue new Social Security numbers to people with bad credit so they could establish new credit files.

In December, online auction house eBay Inc. in San Jose, Calif., suspended a user who was under investigation for allegedly taking more than $30,000 from purchasers of auction items and not delivering the goods.

Last fall, the U.S. Securities and Exchange Commission filed charges against more than 40 defendants who allegedly were being paid by companies to tout their stocks over the Internet.

The Range Of Deceits

Most Internet users have seen offers that sound too good to be true. Every day, millions of people receive e-mail messages whose senders are promoting business opportunities, investment offers, products, and services. It's tough to tell the good from the bad.

The Internet Fraud Watch (IFW), a unit of the Washington, D.C.-based National Consumers League, a consumer-protection organization, says the most prevalent Internet scams involve Web auctions, Internet-service scams, sales of merchandise that is misrepresented or not delivered, pyramid schemes, business opportunities and franchises, work-at-home plans, credit-card issuing, and prizes and sweepstakes.

Susan Grant, director of the IFW, says entrepreneurs are often the targets of business-opportunity and investment schemes that promise high returns for a small investment or little effort. "Often, these promotions claim that it will be easy for you to set up shop and that they'll give you assistance in setting up shop," she says. "But those promises are not fulfilled."

Grant says people victimized by supposedly reputable firms or individuals they deal with via the Internet often don't ask the sorts of questions they would ask of companies they deal with in person or by phone. In many instances, the victim doesn't even know the address or the phone number of the company making the offer. (See "How *Not* To Be A Victim," Page 45.)

PHOTO: T. MICHAEL KEZA

Victims *of alleged fraud by Internet companies sometimes ask too few questions, says Susan Grant, director of the Internet Fraud Watch, a consumer-oriented organization.*

There's more to Internet scams than get-rich-quick schemes, however. Small companies that sell products and services over the Internet can be scammed by their own customers.

Credit-card fraud is fast becoming a major problem for small firms, says Audri Lanford, CEO of Internet consulting firm NETrageous Inc. in Olney, Md. Lanford, co-editor of Internet Scambusters (*www.scambusters.org*), a Web site and e-mail newsletter, says: "Most people, when they think about credit-card fraud, think about consumers. In fact, that doesn't happen that often."

Lanford says credit-card fraud is a problem for small firms because people can easily order and pay for products on a company's Web site using stolen credit-card numbers or cards obtained in someone else's name. It's difficult to verify a customer's identity on the Internet. In many instances, the buyer merely has the products shipped to a location other than the billing address.

That happened twice to NETrageous, but the firm spotted the problem and stopped shipment on the second order, Lanford says. NETrageous lost $500, but many small firms get taken for up to $50,000 with little chance of getting the money.

"The Merchant Gets Stuck"

"There's much more protection for consumer stores" that are not on the Internet and are victims of credit-card fraud, Lanford says. "But on the Internet, the merchant gets stuck with the charges."

Lanford recommends that companies take steps to protect themselves, verifying the customer's address against the billing address and requiring the customer to provide an e-mail address.

Companies that have been victims of Internet scams may have a hard time getting their money back. Lanford says local police departments are reluctant to handle Internet scam cases unless there's a lot of money at stake.

The chances of getting help are better at federal and state agencies that have experience dealing with Internet fraud. The IFW has a toll-free telephone number and a Web site where fraud cases can be reported. The IFW forwards such reports to the FTC, the Justice Department, and state agencies.

The FTC's Bernstein says federal and

state agencies are collaborating to fight Internet scams. The FTC's consumer-response center (*www.ftc.gov*, or 202-382-4357) takes customer complaints by phone and over the Internet. The agency also educates the public about Internet scams by providing information on its Web site .

To further inform consumers, the FTC has put up teaser sites on the Web that resemble those of fraud perpetrators. Visitors to these sites find information about Internet fraud and links to the main FTC site.

Multiple Paths Of Attack

The FTC and other agencies are also attacking Internet fraud on a number of other fronts. Each month, investigators from the FTC, the Justice Department, the FBI, and the SEC spend a day on the Internet looking for evidence of specific types of fraud. These "surf days" enable the agencies to pinpoint fraudulent operators quickly and gather evidence to stop their activities.

Bernstein says the FTC moves quickly against alleged fraud operators it discovers by suing them and asking the courts to freeze their assets and issue restraining orders to keep them from doing business.

Last year the FTC took just 30 days to file suit against two New York firms that were using software to "hijack" users' Internet connections and reconnect them through an international long-distance number based in Moldova, a nation in Eastern Europe. The companies agreed to refund $2.74 million to 38,000 consumers.

Most of the cases the FTC pursues are settled without going to trial. But the agency has won some big judgments. The biggest court victory to date was against the Fortuna Alliance, which ran a Web-based investment program. In February 1997, Fortuna Alliance agreed to refund $5.5 million to more than 15,000 investors.

The FTC alleges that Fortuna Alliance was an illegal pyramid scheme that promised investors they could make up to $5,000 a month in exchange for a marketing fee of up to $1,750 at the start plus monthly fees.

Last July, a federal court in Seattle issued a contempt citation against Fortuna Alliance for failing to provide full refunds to all investors, and it ordered the firm to pay an additional $2.2 million to provide refunds.

Because many fraud operators are based overseas, the FTC is also working with law-enforcement agencies in other countries. "This is a global medium, and fraud operators can be anywhere," Bernstein says.

Small-business owners who suspect they are victims of Internet fraud should contact the FTC and their state attorney general's office or consumer-affairs department.

These agencies will ask for detailed information on a firm's transactions with an allegedly fraudulent company, such as photocopies of canceled checks and written agreements and the e-mail or Web address from which the offer was made.

Such facts can provide evidence for pursuing suspected cases of fraud and can qualify firms for any refunds won in a lawsuit. NB

How Not To Be A Victim

The Internet can be a great source of business opportunities, but sometimes it's hard to tell the legitimate companies from the fraudulent ones. Let common sense be your guide. The Internet Fraud Watch, part of the Washington, D.C.-based National Consumers League, offers the following tips:

- Do business with companies you know and trust. Beware of companies that don't provide a telephone number or mailing address. These firms could be in other states or other countries, which makes it more difficult to locate them or to resolve disputes. Be sure to verify the phone number and address.
- Understand the offer. Ask for detailed information about products, services, or other offers before buying or investing. Companies should state what is being sold, the price, delivery dates, the return or cancellation policy, and any guarantee. Keep a record.
- Check on the company. Ask state or local consumer protection agencies to see if the company has a business license. Check with Better Business Bureaus and consumer agencies about the company's complaint record.
- Don't provide bank-account, credit-card, or Social Security numbers or other personal information unless you know the company is legitimate and you understand the terms of the sale.
- Take your time to decide. Some companies operating on the Internet urge people to act quickly to take advantage of a limited-time offer. Don't rush into anything.
- Be aware of the difference between private sales and sales by a business. Sales by individuals are not regulated in the same way as sales by businesses. As a result, it may be more difficult to settle disputes with individuals.
- Pay by credit card. Many people who fear giving out their credit-card numbers online think nothing of writing a check to someone they met on the Internet. Yet if they pay by credit card, they stand a better chance of keeping their money if a problem arises. Credit-card companies don't require customers to pay for a disputed charge while it is being investigated.
- Don't judge a company by the appearance of its World Wide Web site. A well-designed Web site doesn't necessarily mean a company is legitimate.
- People online are not always what they seem. It's tempting to respond to information and advice given by participants in online chat rooms and newsgroups. But these individuals may be working for sham companies.
- Beware of unsolicited commercial e-mail. Many offers in such e-mail turn out to be bogus. In many cases, companies conceal their identity and don't provide their return e-mail address.
- Don't download software programs from unfamiliar Web sites. On many Web sites, users are asked to download software that will supposedly let them see videos, hear music, or let them see pages faster. Instead, these files can contain computer viruses or so-called Trojan-horse programs that reconnect users to the Internet using international phone numbers.

For more information or to report a suspected Internet scam, contact the Internet Fraud Watch at 1-800-876-7060 or *www.fraud.org*.

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Where I Stand

On Small-Business Issues

What level of priority should Congress place on issues that could affect your business? Weigh each issue below, then indicate the priority you believe each deserves.

Results of this poll will be published in the June issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636. To respond via the Internet, go to *www.nbmag.com* and click on "Poll."

1 Independent Contractors: Further clarify the distinction between employees and workers hired only for specific projects.

1. High priority
2. Medium priority
3. Low priority

2 Social Security: Ensure that any reforms do not burden small firms with higher taxes or new and expensive administrative duties.

1. High priority
2. Medium priority
3. Low priority

3 Health-Care Deduction: Accelerate the five-year phase-in of full deductibility of health-insurance costs for the self-employed—to match immediately the 100 percent deduction for companies with employees.

1. High priority
2. Medium priority
3. Low priority

4 Estate Taxes: Accelerate the 10-year phase-in of an increase in the estate-tax exemption to $1 million.

1. High priority
2. Medium priority
3. Low priority

5 Year 2000 Problem: Provide federal protections to limit liability if there are legal actions resulting from Y2K problems.

1. High priority
2. Medium priority
3. Low priority

6 Federal Mandates: Ensure that any new federal laws do not impose additional costs and requirements on small businesses.

1. High priority
2. Medium priority
3. Low priority

February Poll Results

On Legislative Priorities

By large majorities, *Nation's Business* readers who responded to the Where I Stand poll in the February issue believe that taxation is the area of government most in need of reform, whether it's the taxes themselves or tax-collection rules.

Specifically, respondents cited estate taxes, capital-gains taxes, and the marriage penalty as areas they most want changed.

Here are the complete results of the poll:

Have the impeachment proceedings made you more or less interested in the work of Congress?

More interested	41%
Less interested	24
No change	35

If U.S. economic growth slows more than expected this year, should Congress take action to stimulate the economy?

Yes	36%
No	49
Undecided	15

Which one of these areas is most in need of reform by Congress?

Tax code	63%
Social Security	13
Federal regulations	12
Labor laws	3
Health care	6
Education	3

Which one of these actions would be most helpful to you and your business?

Reforming estate-tax law	26%
Reducing capital-gains taxes	30
Increasing flexibility in complying with regulations	25
Accelerating the timetable leading to full deductibility of health-care costs for the self-employed	14
Further clarifying the rules on independent contractors	5

Which one of these taxes would you most prefer to see reduced or eliminated?

Capital-gains tax	32%
Marriage penalty	22
Estate tax	35
Alternative minimum tax	5
Other	6

What one area of federal regulation is most in need of reform?

The environment	10%
Workplace safety and health	6
Labor relations	5
Taxes	73
Transportation	1
General business practices	5

Why Women Are Chosen To Lead

More and more, owners of family firms are handing their daughters the reins of leadership.

By Sharon Nelton

If you call a family business and ask for the CEO, don't be surprised if a woman comes on the line. More and more, wives and daughters are rising to the leadership of family firms—even in some of the most male-dominated industries.

Take Karen Elin Johnson, for example. She runs Roughneck Concrete Drilling & Sawing Co., Inc., a Morton Grove, Ill., business that she took over from her father in 1994. Or consider Helen E. Dragas, who in 1996 succeeded her father as CEO of The Dragas Cos. in Virginia Beach, Va. The $20 million firm's core business is residential construction.

Johnson's company cuts concrete for clients such as electrical, plumbing, and general contractors. Asked what she thinks her father, Edward C. Johnson, saw in her that made him believe she could run such a business, she answers, "Probably determination, intelligence, persistence, and honesty."

Dragas' path to leadership started when she was around 10 years old and her father, George Dragas Jr., began spending a lot of time with her, pursuing hobbies and other activities. "I'd joke with him. I'd say, 'I'm your only son,'" says Dragas, the second of four daughters, "because I was the one who always worked on cars with him, worked on boats with him, did the things that you would typically think a father would do with a son rather than a daughter. He always encouraged me to learn business and economics in school, and he conveyed a lot of his business principles to me just through the time we spent together."

A Different World

Twenty years ago, there was hardly any place for women in most family businesses. Or if there was, it was behind the scenes. The rule of primogeniture—awarding inheritance exclusively to the firstborn son—prevailed, and daughters were rarely seen as potential successors.

When the male CEO died and there was no son to take over, the family business's advisers often discouraged his widow from running the company and instead encouraged her to sell it.

Today, however, family-business experts are seeing a wave of change. Women have gone from "invisible to invincible," says Fredda Herz Brown, managing partner of The Metropolitan Group, a Leonia, N.J., consulting firm that deals with family-owned and closely held businesses.

Women are willing to take on more responsibility than before, she notes, adding that "many more young women are not accepting the idea that there's a rule of primogeniture."

While there's still a feeling in family businesses that the son must be considered for leadership, Leslie Dashew, who has been a consultant to family firms for 16 years, says that now, "young women by and large feel that if they want to go into the family business, the opportunity is there."

Dashew, an Atlanta-based partner in the Aspen Family Business Group in Colorado, says these women really must ask themselves: "What is it I want to do and what role do I want to play?"

Two years ago, the Arthur Andersen/MassMutual Family Business Survey '97 showed that 5 percent of the 3,033 companies polled had a woman as CEO and one-fourth of the respondents said that the next

PHOTO: ©TODD BUCHANAN

Unless you're sure *you'd like the top job in your family's firm, it's not worth taking on, says Karen Elin Johnson, CEO of Roughneck Concrete Drilling & Sawing in Morton Grove, Ill.; with her is employee Joe Mocka.*

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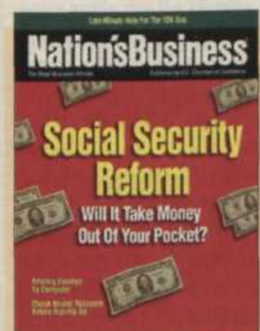

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CEO might be a woman. Still others said they expected that their firms would be led by co-CEOs in the next generation and that one of the co-CEOs might be a woman.

"Becoming A Nonissue"

The continuing expansion of women's roles is one of the "megatrends" in family business identified by Craig E. Aronoff in an article in the September 1998 issue of *Family Business Review*, a research journal.

Aronoff, founder of the Family Enterprise Center at Kennesaw State University in Kennesaw, Ga., and a regular contributor to this magazine, writes that although gender issues haven't disappeared, "in more and more families and in family businesses in general, gender is becoming a nonissue as it relates to leadership, ownership, and participation."

In fact, some of the country's largest family businesses are run by women. Among them is Marilyn Carlson Nelson at Minneapolis-based Carlson Cos., a travel, hospitality, and marketing-services conglomerate with \$7.8 billion in annual revenues. Another is Loida Nicolas Lewis, who, after the death of her husband, Reginald F. Lewis, in 1993, succeeded him as CEO of TLC Beatrice, a New York City-based grocery-products manufacturer with estimated 1998 sales of \$322 million. Also in the group is Patricia Moran, president of JM Family Enterprises in Deerfield Beach, Fla., a holding company for Southeast Toyota Distributors and other auto-related companies. Its 1998 revenues are estimated at \$6.1 billion.

Dashew sees women assuming leadership roles in three spheres:

- Management of the business. This is an area where women are playing more key roles.
- Ownership of the business. Even though a woman may not work in the business, she may own shares in it. "More and more women are seeing that they need to take the responsibility to be active board members and active stewards of their assets," says Dashew.
- The family itself. Many women, Dashew says, are beginning to recognize that they can play a leadership role in areas such as a family council or family philanthropy.

Where Similarities End

Although there are some important similarities in the stories of Johnson of Roughneck Concrete and home builder Dragas, there are also significant differences.

Each one's father encouraged her interest in the business. Neither father was overprotective of the daughter once she joined the firm. And each father let his daughter run the show once she was named CEO—the surest sign of support.

Armed with a bachelor's degree and a paralegal certificate, Johnson held several jobs outside the family business before she accepted her father's invitation to join Roughneck nine years ago.

Once in the company, she enrolled in a nine-month entrepreneurial program at the University of Illinois. Her father made sure she learned how to operate the company's equipment, which, she says, helped her learn how to estimate the jobs.

PHOTO: ©TOM SOBOLIK—BLACK STAR

You must prove *you know "what's going on on the bottom line" if you want to succeed in leading the family firm, advises consultant Fredda Herz Brown.*

Johnson, 36, owns 100 percent of Roughneck. She has two brothers and a sister, all pursuing careers in other fields. One brother is a chef. "We always joke about the fact that we reversed roles," she says.

Since she took over Roughneck, Johnson has seen annual revenues grow to \$3.1 million from \$2 million.

Dragas, 37, began working in the family business in summer jobs as a young teenager, and after earning an undergraduate degree in economics and foreign affairs, she ran the company's marketing department for two years.

Dragas enrolled as a graduate business student in The Darden School at the University of Virginia, not knowing whether she would return to the family firm. By the time she received her MBA two years later, in 1988, her decision to return was clear. "Certainly when I looked at the alternatives, it was a very easy decision," she says. "I got a lot of responsibility very young, and a lot of autonomy."

She ran the business's mortgage company for seven years, buying it from her father after four. Today she's also a 40 percent owner of the building company, while her three sisters—all of them at home raising families—own the other 60 percent.

Juggling personal and private lives is a big issue with women in family firms, and Johnson and Dragas have dealt with it in far different ways.

Johnson is single, has "a wonderful boyfriend," and is good about leaving work behind at the office, she says. Nonetheless, she adds, "I do find, for myself, a big struggle in trying to figure out how I can possibly have a family and still do what I'm doing, because I do feel that this industry is extremely competitive and demanding."

Married to tax and estate lawyer Lewis Webb III, Dragas is expecting her third baby this summer. The other children are 2½ and 4, and Dragas says her "fantastic nanny," Pamela Nicol, "provides invaluable support." Dragas also has a backup nanny, and in emergencies her sisters help out.

Dragas says her father has "always encouraged my sisters and everyone else to sort of pitch in and give me a hand because what I'm doing benefits everybody."

History's Influences

A confluence of events over the past 25 or so years has resulted in the rise of women in family businesses in the 1990s. Beginning in the mid-1970s, women began going to business school and earning MBAs as never before and then building on their education with work experience.

As a result, there's now a larger pool of daughters with valuable business backgrounds—a welcome sight in today's tight labor market.

Most fathers today want their daughters to get the best opportunities and all the education that they can, notes Patricia M. Cole, founding director of the Institute for Family Business at Nova Southeastern University in Fort Lauderdale, Fla. Fathers, she continues, "have realized how much their daughters need a layer of armor to go out, because they are going to have to be working. They're not going to just get married and live on one income. Those days are over."

The increase in the number of women in the workplace or starting their own businesses has demonstrated to men who own businesses that women can be both managers and mothers, making the idea of daughters in business more acceptable.

Generational Differences

With roles changing so rapidly, this is a confusing time for men and women in family businesses. Older family members may still wish their daughters were home looking after the grandchildren.

"The issue of children does not go away," says Cole. "The old saying is that in a family business, the woman's parents are telling her to give them grandchildren—then they're asking when she's coming back to work."

Women in male-dominated industries may encounter resistance because of their gender. When Johnson joined Roughneck, she found that some of the male employees resented her, and she had to prove she could do the job before she could win them over. The man responsible for purchasing at one client company refused to do business with Roughneck after she took over—a problem that disappeared when the man retired last year.

Some women CEOs still experience resentment from brothers who felt entitled to the leadership role. On the other hand, says consultant Dashew, there are sons who really don't want to take over the family business and who feel relieved when there's a sister to step in.

Family-business experts are also saying that cross-gender successions—from father to daughter or from mother to son—appear to go more smoothly than same-gender transitions, although they caution that it's too soon to generalize. With the more common father-to-son transitions, however, they see more confrontation and turf wars than with father-to-daughter successions.

What wisdom can be offered to senior-generation leaders who may wish to consider daughters as possible successors? And to daughters who aspire to family-business leadership? The business owners and experts interviewed for this story offer this advice:

To Parents:
"Objectify the process," suggests consultant Herz Brown. First, let the children—sons as well as daughters—"take back their own career training," she says. Let them decide how they want their career path to go, and set up an executive-development program of training, experiences, skill development, and mentoring to help them get where they want to go.

Second, identify people in the organization who can accurately evaluate the children's performance.

Last, have others—such as members of an advisory council or board of directors—make the final selection of the successor.

"There's no way you can choose a successor among your children where your children aren't going to see it as you choosing the favorite," says Herz Brown.

Once the new CEO takes over, says builder Dragas, really step aside. "My father is a textbook example of someone who knows the right way to manage a transition like that," she says. "He gave me the authority, and then he stepped back."

"My father ... gave me the authority, and then he stepped back." A successor's biggest problem is a founder who wants to "hang around and micromanage and make sure that the successor isn't going to make the smallest mistake."

—Home Builder Helen E. Dragas, CEO, The Dragas Cos.

The biggest problem for a successor, male or female, she says, is a founder who wants to "hang around and micromanage and make sure that the successor isn't going to make the smallest mistake."

To Daughters:
Be sure that being in a leadership role will make you happy. "If you don't think you could be happy doing that, then it's not worth it because it's a lot of work," says Roughneck Concrete's Johnson.

Make your goals known, and do what it takes to prepare for the role you want. Both Johnson and Dragas got the education they needed. Johnson got outside work experience and belongs to industry organizations, where she continues to learn informally.

Don't lose sight of the bottom line. It's easy for women to get caught up in the management of people, says Herz Brown. And while that's extremely important, she says, "if you can't prove that you can be profit-oriented and know what's going on on the bottom line, you're not going to make it to the successor level."

Women now have their best chances ever of winning the top spots in family businesses. But it's not a matter of parents giving their daughters more opportunities or other people making it easier for women, cautions consultant Dashew.

The women themselves, she says, have "to step up to the plate and learn what they need to learn and take the risk." ■

MARK YOUR CALENDAR ✓

April 8, Philadelphia

"Strategic Tools for CEOs of Family Businesses" is a program of the Delaware Family Business Center. Call Henry Landes at 1-800-296-3832.

April 8-9, Birmingham, Ala.

"New Estate-Planning Strategies for the Closely Held Bank" is a seminar for bank owners, directors, and officers who want to preserve their banks for future generations. To be repeated in Des Moines, Iowa, on May 17-18, and Missoula, Mont., June 1-2. Call the National Institute for Community Banking at 1-888-728-3265, Ext. 303.

April 15, New Brunswick, N.J.

"Same-Gender Parent-Child Relationships in Family Business" features psychotherapist Edward P. Monte. Call David Niemeyer, director of the Rutgers University Family Business Forum, at (732) 445-7504, Ext. 21.

April 20, Toledo, Ohio

"Beyond the Second Generation—Sibling Teams and Cousin Syndicates" is a morning program of the University of Toledo Center for Family Business. Call Debbe Skutch at (419) 530-4058.

April 30-May 2, Chamberlain, S.D.

"Family Business: Launching into the New Millennium" is the theme of the seventh annual Prairie Family Business Conference. The program includes sessions for children as well as adults. Call Clark Hammond of the South Dakota Family Business Initiative at (605) 677-5103.

May 5-7, Orlando, Fla.

"Managing Succession Without Conflict" is a seminar featuring two nationally known family-business experts, Léon A. Danco and John L. Ward. To be repeated in November. Call Ross Nager of the Arthur Andersen Center for Family Business at 1-800-924-2770.

May 15, Los Angeles

"Understanding Your Family Business" is an all-day forum sponsored by the University of Southern California Family Business Program. Call (213) 740-0416.

June 14-16, Cambridge, Mass.

"Using the Systems Approach" is an intensive program for family-business advisers. Call the Cambridge Center for Creative Enterprise at 1-800-531-5755.

Case Study: Differing Over An Opportunity

Donna Taylor, a certified public accountant, has a dilemma. Her clients, Bernie and Polly Wheeler, are an unbeatable father-daughter partnership at Wheeler Flooring, their family-owned chain of flooring-distribution centers.

Three months ago, the company acquired another small chain, positioning the flooring chain as the region's largest and best-known. Now, unexpectedly, they have an opportunity to acquire yet another chain with identical products in an abutting region. The two acquisitions would double the company's annual revenues to $30 million and make Wheeler Flooring one of the nation's largest floor-covering distributors.

The second acquisition would mean a great opportunity for increased sales and market control but would also require a substantial increase in inventory and receivables.

Donna, 42, has been the company's most trusted outside adviser for eight years. She has a strong relationship with both Bernie, 55, the firm's president, and Polly, 33, who is executive vice president and who will succeed her father as leader and owner of the company.

Bernie and Donna think the consolidated pro forma financial statements of the second company look good and support the additional acquisition. But Polly, who has been told by her father that the decision is hers, is concerned. She is not sure that such a major risk is right just now. Both she and Bernie look to Donna for support.

Donna is unsure what her role should be at this point. "To whom am I accountable?" she wonders. "To Bernie or Polly or the company?"

ILLUSTRATION: TROY THOMAS

Response 1

Don't Advocate

Donna's role is to provide quality service to all three. When an adviser represents a family business, it is common to have both the business and its principals as clients.

Each client may require different, and at times conflicting, services to achieve the objectives of each. Each client will assume Donna is providing the services that each requires unless there is an understanding otherwise.

If the clients' interests conflict with one another, it would be appropriate for the adviser to inform all parties of the conflict. So far, the facts in the Wheeler Flooring case do not present a professional conflict for Donna because no one is requesting that she act as an advocate or arbitrator.

PHOTO: ©SAL DIMARCO JR.—BLACK STAR

Ronald H. Drucker, a CPA and attorney and co-founder of two CPA firms, Drucker & Scaccetti, PC, in Philadelphia, and Drucker, Math & Whitman, PC, in North Brunswick, N.J.

For Donna to provide quality service—not advocacy—all the clients should be fully informed of their options, risks, and opportunities. Donna needs to make all parties aware of the investment risks and potential rewards.

This might include designing a risk/reward analysis for the business, for Bernie, and for Polly. Bernie should be advised of the impact of the investment on his personal liquidity as he approaches retirement. All parties should be advised of the increased management pressures associated with rapid growth and of the impact such growth will have on personal lifestyles.

If Donna cannot be of assistance to a client for any reason, she should explain why and advise that client to seek further assistance. If requested to do so and if it's appropriate, she can provide referrals.

Response 2

Offer Broad Counsel

Donna's role here is no different from what it has always been. Her financial advice is a given. However, she can do much more than provide financial counsel.

CPAs are often trusted advisers because of the wealth of experience that they can draw upon. Donna's value has come about in part because she can advise both father and daughter about their business, not just finances. She is accountable to all—father, daughter, and the business—and is in the position of advising Bernie and Polly not only as the managers but also as the owners.

L. Joseph Comeau III, a partner with Arthur Andersen LLP and leader of the Private Client Services practice in the firm's Boston office.

Donna should be an impartial adviser who helps her clients understand the deal from as many business angles as she can. For example, she can help Bernie understand that his confidence in Polly isn't enough and that Polly needs to be convinced that they are ready for a big growth spurt. She can also share "war stories" about what she has seen happen as companies digest acquisitions.

Further, Donna can help Polly understand her own limitations. Not everyone is a risk taker. Polly's management style may differ from—yet complement—her dad's. That may be why they look at the deal differently.

An important consideration here is the impact that doubling in size will have on Wheeler Flooring and its employees. Donna can help the owners appreciate what opportunities and pitfalls such growth represents.

For example, it is likely that more top managers will be needed. Will they come from the acquisition or will they be new hires? Although Bernie and Polly work well together, are they ready to duplicate that teamwork with outsiders?

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. **You can comment on this case study on the World Wide Web at *www.ffi.org/forums.html*.**

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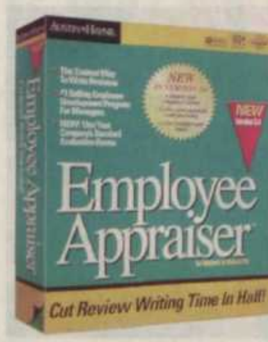

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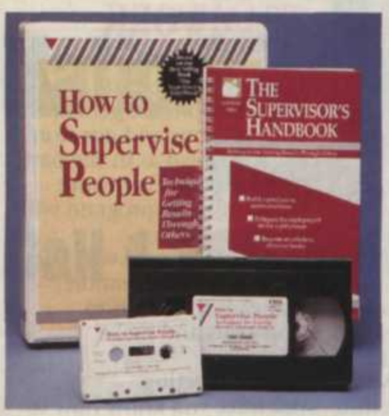

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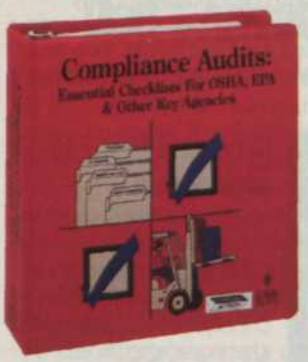

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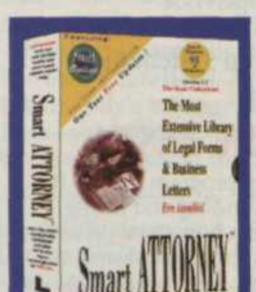

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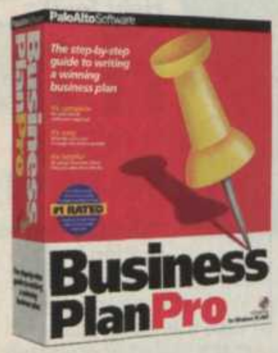

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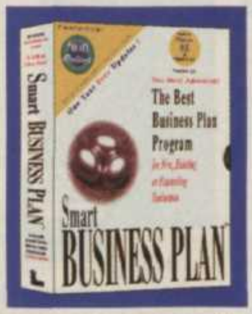

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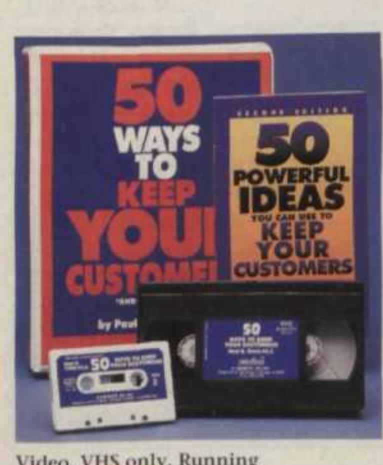

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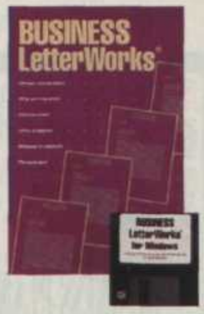

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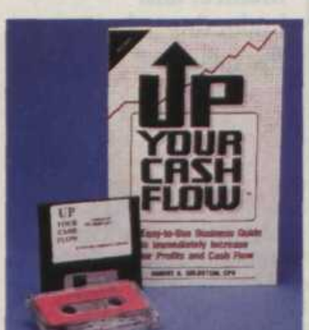

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Finding Safety In Franchising

Firms that cater to concerns for personal safety and business security are expanding through franchising.

By Dale D. Buss

About 10 years ago, when Watergate was a distant memory and Whitewater was just a failed real-estate venture in Arkansas, Greg Brophy realized that there could be big profits in keeping confidential information confidential—by shredding it.

Since then, Brophy, now 35, has built an $81 million franchising company, Shred-it Inc., by developing and then perfecting an approach that meets companies' needs for protecting secrets and that can be duplicated easily: Brophy's company sends shredders out to do the work on-site.

Brophy's Toronto-based company is the largest mobile shredding and recycling service in North America. It has more than 50 franchises in major cities across the United States and Canada, plus a few abroad.

"There are some shredding services that pick up customers' materials and take them to an off-site facility for shredding," Brophy says, "but that's not what companies are looking for. They want to see their documents and other sensitive materials destroyed so they know their trade secrets won't be compromised or their flawed products won't find their way to market.

"It's the old 'seeing-is-believing' idea. It gives them a confidence factor that they can't get in any other way."

The growth of Shred-it is an apt example of why the business of catering to Americans' concerns for personal and business safety and security continues to grow—even though there is evidence that criminal activity in the United States is declining. Although franchising has not been a major avenue of growth in the security industry, a number of national and regional companies such as Shred-it are setting out to change that.

Causes For Concern

Part of what drives businesses to sign up for Shred-it's service is the importance of keeping secrets to succeeding in the increasingly competitive global economy.

Another reason for the continued growth of safety- and security-oriented franchises, security experts say, is that, crime trends notwithstanding, Americans' litigiousness continues to increase.

Just a relatively few spectacular cases of workplace violence, for example, such as fired employees coming back to wreak bloody revenge on former co-workers, have been enough to cause some executives to turn their facilities into strongholds.

"The single biggest motivating factor is liability," says Norman D. Bates, president of Liability Consultants Inc. in Framingham, Mass. "And we've found that the companies that develop good security programs are winning the majority of the cases" arising from claims that seek to hold the firms liable for breaches of safety in the workplace.

Trends in crime notwithstanding, many people feel more exposed than ever to the vagaries of random crime and want to equip themselves with resources to ensure their own safety and that of their loved ones.

For example, although "it's true that since 1974 burglaries have been almost in a steady decline," says Simon Hakim, director of the Privatization Research Center at Temple University in Philadelphia, "security measures have been increasing basically because of an increase in income and not so much because of what's happening out there. As economic conditions continue to rise, the purchase of alarms is going up."

PHOTO: ©LORRAINE C. PAROW—MERCURY PICTURES

A company's secrets *are slivered on-site by Shred-it Inc., a Toronto-based company that founder Greg Brophy is expanding in Canada and the United States by way of franchising.*

Foreign Influence

International markets—where economic instability may be raising personal con-

cerns about security—also are contributing to the expansion of some security-oriented franchise businesses. In fact, when Mace Security Centers Inc. launched its franchise program last year to sell a wide variety of personal-protection and security products, its first 15 franchise commitments at a trade show in Chicago came from overseas franchisees.

"Crime is crime regardless of where it is; it might take on just a slightly different style," says Howard Edelman, president and CEO of Mace Security Centers, the Denver-based franchising arm of Mace Security International.

Mace, with one of the highest profiles in the world of safety and security, is turning to franchising for further growth. Mace spray, which dates from the mid-1960s, quickly became well-known and accepted by law-enforcement agencies and later came to be an effective means of protection for individuals.

The parent company, which has gone through a series of ownership changes, has a 200,000-square-foot factory in Denver that produces its spray products as well as about a half-dozen other types of devices for personal, home, and automobile security. The company also sells spy-technology equipment such as audio and video surveillance devices.

In all, Mace has about 2,000 products available through its various distribution channels. "We appeal to everyone," Edelman says, "because we have a lot of different products for different needs." Expanding its product line further, Edelman believes, will be one key to Mace's growth.

Even more important, however, will be franchising its retail stores. In addition to the overseas commitments that Mace has obtained, the company is focusing on up to a half-dozen major U.S. metropolitan markets. A franchisee's total investment in a U.S. franchise will range from $44,500 to $75,000 for a kiosk-size operation or $92,700 to $152,500—not including real-estate expenses—for a store operation, the company says.

"We want to eliminate the searching for the customers and fill their security needs at one consolidated location," says Edelman. "An added benefit, aside from having the products under one roof, is that we ... educate each customer on the products available and how to use them."

Eventually, Mace plans to conduct safety seminars for community-service organizations and businesses.

PHOTOS: ©ASSOCIATED PHOTOGRAPHICS

One-stop shopping *for security devices is a franchising goal of Howard Edelman, president and CEO of Denver-based Mace Security Centers; here, in front of the counter, he reviews the wares with company operations specialist Frank Brown. At right: a Mace Security Center in Westminster, Colo.*

Shopping For Security

Another big name in security that has been developing a vision of franchising retail outlets is Winner International. The company, based in Sharon, Pa., has become known worldwide as the creator of The Club, an anti-theft device that locks a car's steering wheel; its advertisements featuring police-officer endorsements have made it the industry leader in marketing such devices.

A subsidiary of Winner, a retail chain known as Security World International, based in Fort Lauderdale, Fla., is on track to start offering franchises by summer, says Security World's president, Jim C. Crump.

The firm, with 14 retail outlets in Florida, plans to have its franchise stores offer a range of personal-, home-, and auto-protection devices, including closed-circuit televisions, time-lapse video cameras, pepper sprays, stun guns, cellular products, and wireless alarms.

"I wouldn't say it's a rivalry, really," says Mace's Edelman, referring to the growing competition presented by Security World in the security-retailing industry. Though Mace has only two stores open—company-owned outlets in the Denver area—"our name is well-known, and they have built up their name in another area of protection. I think we each have certain advantages over the other. I think there's room enough for both of us in the U.S. and around the world."

Security World, whose mall-based stores employ more than 100 people, is testing and tweaking its retailing concepts in anticipation of franchising. The company says its stores often accumulate more sales per square foot than any other retailer in the mall. The company is constructing a new headquarters in Fort Lauderdale largely to broaden its support for franchisees.

Sounding Alarms

Retailing is not the only way that franchisors are tapping into consumers' and businesses' interest in safety and security. For example, Sonitrol Corp., a unit of Tyco Industries Inc., based in Alexandria, Va., has built up a chain of more than 170 franchised alarm-system providers across the United States in the past 30 years. They offer alarm systems primarily for commercial clients.

Like many inventors who start out in one direction and segue into others, Sonitrol founder Robert Baxter began working in an area far different from Sonitrol's current business.

In the early 1960s, Baxter used a stethoscope to listen for termites in the walls of homes and developed sound-making devices for repelling birds around houses and airports. Then he began working with a former police chief who owned an alarm company, and they saw a market potential for audio-based surveillance. Baxter opened his first service firm in 1964, and by 1973 Sonitrol had nearly 150 franchises nationwide.

The basic system involves placing microphones at strategic locations throughout a business to detect ambient sounds that are above normal ranges, such as someone breaking a window or banging on a door to break into a building.

Such audio surveillance can cover a larger field than cameras, according to Sonitrol. It also allows for quick apprehension of a suspect because it detects the sounds of a burglary while it's taking place. Sonitrol says more than 140,000 apprehensions have been credited to its alarm systems over the years.

Under Sonitrol's warranty program, the

customer can be compensated for property damage and the value of lost goods up to $5,000 if its system fails to detect an unlawful entry.

Sonitrol transfers its experience and understanding of the industry to franchisees through its nationwide dealers' association, which oversees franchisee training, development of new products, and other functions.

"Sonitrol U" trains sales associates and franchisees alike in the features and installation of Sonitrol systems, and they in turn become the company's main interface with customers. The cost of establishing and owning a Sonitrol franchise ranges from $250,000 to $500,000.

"We pride ourselves on being a local-service provider," says Bill Meares, chief operating officer, who has been with Sonitrol for 15 years. "We have positioned ourselves not to be a mass-marketer."

PHOTO: © REGIS LEFEBURE

Mass marketing *is not the goal at Sonitrol Corp., says Bill Meares, chief operating officer of the Alexandria, Va., company. Sonitrol franchisees sell audio-based surveillance systems to businesses.*

An Early Entrepreneur

When Shred-it's Brophy was 16 and in high school, he founded a company that sprayed finishing seal on asphalt driveways, and he bought—and served as landlord of—several rental-housing units while he was in college. "I was doing that for one reason: to get some money together so I could start my own business when I got out of school," Brophy says. Sure enough, after poring over books about McDonald's, Wendy's, and other successful franchisors to get tips, he founded Shred-it in 1994.

The company has franchisees in 30 U.S. states and eight Canadian provinces, and it has offices in Hong Kong, Argentina, Belgium, and Luxembourg. Brophy's concept is simple: Shred-it's trucks, with large shredding units inside, are driven from business to business.

One of the forces propelling Shred-it's growth has been the rising incidence of "Dumpster-diving"—when thieves comb through trash receptacles behind banks to get their hands on discarded documents containing information they can use to gain access to—and siphon the assets of—bank customers' accounts.

In other cases, companies have been accused of sending corporate spies to raid competitors' outside trash bins to get sales reports, customer lists, and other confidential information.

Another factor contributing to Shred-it's growth has been companies' realization that outsourcing shredding makes economic sense. Shred-it's custom-designed

shredders are 40 times faster than the standard office shredder, pulverizing 1,200 pounds of paper per hour compared with the 30 pounds handled by the typical in-office machine.

Brophy says he gives customers a guarantee: "If you don't save at least 25 percent off the cost of labor that you would expend shredding your own materials, at the end of the month we'll take our containers away and shred up any invoices we've given you in the first month."

In 1989, just after receiving an MBA from McMaster University in Hamilton, Ontario, Brophy, then 26, started Shred-it. He put up $32,000, borrowed $160,000 from a bank, and bought two pieces of equipment—a specialized, $70,000 truck and a $70,000 shredder.

He lent his clients locked security consoles—about the size of a mini-refrigerator—into which office workers would regularly deposit documents to be shredded. Then Shred-it personnel would go to the office every couple of weeks, empty the container's contents into the truck's shredder, and set it back in place.

The Need To Franchise

In five years, Shred-it grew to three company-owned locations in Canada, "and I thought I could grow the concept far past where it was at that point," Brophy says. Yet he was facing a type of dilemma that often steers a growing firm toward franchising. "I had worked so hard," he says, "and I wasn't sure that if it took the same amount of effort to get much further that I could do it. I also recognized that I was weak in both capital and in having people to run more branches if I opened them."

Brophy has found franchisees in a vari-

Hardware For Security

From handy pepper-spray canisters to child-safety kits for homes, security devices offered by franchise companies cover the spectrum of risks. Following are some of the products sold by Denver-based Mace Security Centers Inc. and Security World International in Fort Lauderdale, Fla.

Mace spray. For $15 to $20, Mace offers a 17-gram unit that presents a multiple defense against attackers: a combination of pepper gas and tear gas that shoots 8 to 12 feet plus a marking dye that can help police identify the perpetrator later. "Their eyes are going to slam shut because the pepper gas causes an involuntary reaction, which also inflames the mucous membranes in the eyes, nose, and throat so breathing becomes more difficult and [they] can't run after someone," says Mace's president, Howard Edelman.

Child-Guardian. Security World sells a $30 device that includes a transmitter that can be placed in a child's room or worn like a belt. "Simply press a button to hear where they are," says the catalog.

Kindergard child-safety kit. For about $25, Mace sells a kit with a variety of items for making a home safe for toddlers. It includes cabinet locks and cushions for sharp edges of furniture.

Security cameras. For about $300, Mace sells a security camera that many customers use in their homes—for example, for "nanny watching."

Security World offers a more complex system—typically for commercial use—that has a 10-inch, black-and-white, high-resolution monitor, up to four small video cameras, and a microphone and speaker built into the monitor and the camera for two-way voice communications.

Canine products. Security World sells the Dog Dazer for $30. It uses an ultrasonic frequency —described as inaudible to humans yet "discomforting but not harmful" to dogs—to ward off approaching dogs.

Enlisting the threat of canine violence, on the other hand, is the idea behind the $100 Electronic Watchdog alarm, which is meant to scare off intruders. Its alarm sounds like a fierce barking watchdog.

Nighttime security. Security World offers a $700 pair of binoculars whose built-in infrared illuminator enables the user to see in complete darkness. Price: $700.

Countersurveillance measures. Security World's $250 Tap Buster device is designed to ensure against telephone-line tapping and eavesdropping.

Anti-counterfeiting equipment. Security World offers a range of devices at a range of prices. There's a $5 anti-counterfeiting pen that detects counterfeit bills—"perfect for restaurants, banks, retailers, or personal use," according to the catalog. There's also a $100 electronic device said to be able to spot counterfeit bills and various fake documents. And a currency counter that sells for $1,300 to $1,600 is described as able to detect counterfeit bills.

ety of ways, including magazine "franchise-wanted" ads, contacts at the International Franchise Association in Washington, D.C., and via trade shows. "I usually sell two or three franchises every time I go to a trade show," he says.

Most Shred-it franchisees are assigned an entire metropolitan area, giving them the market size that makes it worthwhile for them to invest the $55,000 in franchise fees and several hundred thousand dollars a year for leases for trucks and other equipment required for the job.

Safe At Home

If Shred-it's Brophy has expanded the universe of security-related franchises on the business-to-business side, Ken Austin is doing the same thing on the home front. He is founder and chairman of Safe Not Sorry, a Bound Brook, N.J., franchisor of home-safety products and services.

In 1988, after succeeding in franchising 20 years ago as founder of HouseMaster, a home-inspection company, Austin started Safe Not Sorry.

Austin identified a market for inspections and fixes of various sorts that address homeowners' security concerns.

One of Safe Not Sorry's emphases is on child safety—installation of gates, cabinet locks, and electrical-outlet plugs, among other things.

Another company focus is senior safety—a product line that enables the elderly to live independently by helping them climb stairs and use light switches, faucets, and doorknobs.

Safe Not Sorry franchisees also offer invisible electronic fencing and other pet-control devices as well as general home-safety services such as lead-poisoning prevention and installation of carbon-monoxide detectors.

Safe Not Sorry has sold 23 franchises in eight states since it began its franchising program in 1997.

The initial franchise investment is as much as $50,000. Franchisees receive training at the company's Safe Home Institute in Bound Brook, and then they go into their local markets, meeting with customers in their homes and assessing potential safety problems.

"There is a great demand for child-proofing with insurance companies," says the 64-year-old Austin. One of the many child injuries addressed by Safe Not Sorry is scalding; each year more than 3,000 children age 4 or younger are treated for scalding.

The firm recommends to homeowners that they set water temperatures to a tolerably low level or that they have tubs and showers fitted with devices that block the flow of water if it exceeds a certain temperature.

Tara Penza, owner of a Safe Not Sorry franchise in Broomall, Pa., says the company's child-safety emphasis "sells itself. I feel like we empower parents to take a look at safety in their homes."

Penza, a 38-year-old mother of three, began as a franchisee in 1997 after spending 15 years counseling college students at Montclair State University in Upper Montclair, N.J. "I work a lot more hours now, but they are flexible," she says, adding that the company fosters networking among franchisees.

PHOTO: ARNOLD ADLER

Home safety, *particularly for children and the elderly, is the theme of Safe Not Sorry, a Bound Brook, N.J., franchise company founded by Ken Austin, chairman.*

Support such as that provided by Safe Not Sorry is crucial for the franchisees of companies that offer businesses and consumers various products and services for safety and security.

Although the idea of protecting themselves against accidents and crime may continue to be an easy sell to American consumers and business owners, the key to capitalizing on that growing market interest—for franchisors and franchisees alike—is execution. NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Foam Follows Function

By Al Ebbers

Tad Wiginton, 34, owner of Capitol Foam, Inc., of Round Rock, Texas, near Austin, started out 12 years ago trying to make raised lettering for the blind. He ended up carving award-winning, one-of-a-kind plastic-foam designs for billboards nationwide.

He and six employees carve and assemble their figures from huge blocks (4 by 8 by 3-plus feet) of polystyrene, a Styrofoam-like material. The sculptures they create can be bigger than life—like a 23-foot-high Timberland hiking boot weighing nearly half a ton and an 18-foot-high gumball machine containing "gum balls" the size of beach balls.

Dozens of Wiginton's three-dimensional designs have been attached to billboards coast to coast, ranging from a life-size Volkswagen Beetle to a giant diaper pin. Created for a hospital in San Antonio, the diaper-pin billboard won a prestigious ADDY Award from the American Advertising Federation.

Wiginton acknowledges that it was by chance that he entered the world of three-dimensional billboards in 1987. At the time he was a recent computer-science graduate, and he received a U.S. Department of Education grant to create a computer system to make raised letters. He came up with a computer-controlled machine with a hot wire that cut through foam like a hot knife cuts through butter.

When his device wasn't accepted, he used it to carve letters, small logos, and signs out of foam for department and craft stores.

"Then, out of the blue, an ad agency called and asked if we could make a 15-foot-long 'Starship Enterprise' for a billboard to advertise a TV station in Chattanooga," Wiginton says. "We said, 'Sure we can,' and we had no idea how to do it." But they did it, and the Tennessee station received an award for it from the Independent Television Stations of America.

"We only carve once with wood-carving tools and electric hot knives," Wiginton says. "If a nose on a face doesn't look like one, we just cut it off and carve another chunk of foam and glue it on." Each polystyrene sculpture then receives applications of paint and a protective coating before it is shipped to the customer.

In addition to the sculptures, which sell for $2,000 to $10,000, Capitol Foam makes its own protective coating, which is also distributed by an East Coast company to theatrical- and film-scenery designers from Broadway to Hollywood. Polystyrene needs a coating to keep the paint from peeling and to keep the foam durable, Wiginton says.

The coating is a special formula, he says. Fortunately for Capitol Foam, a retired chemical engineer in Buda—also near Austin—who had developed a protective coating for polystyrene contacted Wiginton in 1989 and sold him the formula. The purchase triggered the company's growth, Wiginton says.

Capitol Foam also sells foam shapes to

PHOTO: ©BOB DAEMMRICH

Plastic-foam sculptures *crafted by Tad Wiginton's company in Round Rock, Texas, add life-size or larger-than-life texture to billboards—and to this float for a local parade.*

Al Ebbers is a free-lance writer in Austin, Texas.

builders for use in moldings, arches, and columns. Its latest project is development of an insulated steel panel (ISP) for houses and commercial buildings. The panels are composites of polystyrene foam and light-gauge metal studs, Wiginton says, and they are designed to be used in place of conventional studs, insulation, vapor barriers, and exterior sheathing in standard construction.

Wiginton obtains steel from a supplier, assembles the panel's frame, and sends the frames to another firm to be combined with foam. So far, the panels have been used in three houses in Austin and a commercial building in Las Vegas.

Capital Foam's gross sales in 1997 topped $300,000, Wiginton says, and with the new ISP business, the company is "looking to get $500,000 in sales this year."

Wiginton came up with the idea of a steel-framed foam panel because, he says, "I always wanted to build, so I started investigating different ways to build with foam." He says the panels are termite-free, fire-resistant, and energy-efficient.

The ISPs will be the source of "our main growth," Wiginton says, but he also sees an increase in the billboard business. He has been seeking venture capital for expansion. "What we always have done until this last year is pretty much word of mouth. But our new focus will be to market to the ad agencies to get some chain accounts," he says.

"If we can make five of something," he says, referring to the billboard sculptures, "that's better than making one of something. And it's fun to watch them go up." ■

Catching Some Quality Rays

By Nancy Bearden Henderson

Determined not to get sunburned on her beach vacation in 1981, Louise Gray made an appointment at a salon to get a gradual head start on her tan. When the equipment broke down and her appointment was put off for two weeks, she set out to buy her own tanning bed. She discovered, she says, that "all beds looked the same, felt the same, and tanned the same."

Seeing a small-business opportunity, in June 1982 Gray and her husband, Ricky, took out a second mortgage and opened a 1,200-square-foot, six-bed tanning salon in an office complex just off the interstate in their hometown of Ringgold, Ga.

For the first few months, Ricky's mother ran the business during the day and the couple took over at night. In 1983, Louise left her job as office manager for an insurance broker to begin working full time in the new venture. Ricky followed in 1985, quitting a 15-year sales post with a bread company.

The new business grossed only $34,000 in its first six months. But when friends and customers asked for their own tanning equipment, Ricky began traveling to Florida on weekends to pick up imported beds that he later installed in homes and salons in north Georgia.

Demand grew, and in 1992 the couple bought a warehouse near their shop and became full-time distributors.

"It's hard to be your customer's supplier and competitor at the same time," says Ricky. "So we felt it was in the company's best interest to dissolve the salon."

In 1996, the Grays bought out a major supplier, a German company, and adopted its name, SonnenBräune, which means suntan in German. They redesigned some outdated beds, launched a site on the World Wide Web, bought the 10,000-square-foot plaza where they had opened their first salon, and started a manufacturing plant.

PHOTO: ©STEPHEN ALVAREZ

Tanning-bed manufacturer *Ricky Gray—co-founder with his wife, Louise, of a Ringgold, Ga., firm—says, "I would rather explain the price than apologize for the quality."*

Last spring the Grays remodeled the former colonial-style building, expanded it to 40,000 square feet, and added a showroom.

In 1998, sales topped $10 million, and SonnenBräune won two Chattanooga (Tenn.) Advertising Federation awards for its bold trade-journal ads.

Each year, SonnenBräune, which has 55 employees, installs the components—including wire harnesses it creates to carry the electrical current—in approximately 3,000 prefabricated tanning-bed shells. The finished products range in price from $900 for a home unit to $32,000 for a luxury commercial model with air conditioning, a compact-disc player, and a cellular phone.

Through its Web site, SonnenBräune has drawn customers from as far away as Argentina, Australia, Japan, and Russia.

"In other countries," says Ricky, the company's president, people "go to a salon for an hour-long tan, a body massage, and a mud bath. So machines in other countries are configured differently; they're not as powerful or as strong as they are in the United States.

"Here, if we could get a tan at a drive-in window, we'd do it because we're in such a hurry."

SonnenBräune beds are crafted of steel and come with a three-year limited warranty. Ricky oversees the company's stringent quality-control program and inspects each bed himself to make sure it meets federal standards.

The Grays attribute their firm's success to its attention to quality. "Our beds are the most expensive beds in the world," Ricky acknowledges. "I would rather explain the price than apologize for the quality. Whatever we do, if we can't do it right and stand behind it, we just don't do it."

Customer support is a top priority, Louise says. "We want every tanning bed to look perfect in its new location."

Each sale comes with advice on everything from negotiating a lease to staying financially solvent.

The result of such concern for customers' financial success, Ricky says, is repeat business. "Selling you six beds is not going to make me a living. But if next year you want four more, then the next year you open up a second location—that keeps me in pretty good business." ■

Nancy Bearden Henderson is a free-lance writer in Chattanooga, Tenn.

A Passion For Perfection

By Carla Goodman

A passion to cook simple Italian dishes like those her mother made at home in Bologna, Italy, has turned California entrepreneur Biba Caggiano into an internationally recognized restaurateur, cookbook author, and host of a TV cooking show.

Caggiano's "Cooking With Biba" series, produced for the Learning Channel in 1982, is still aired in Asia, Australia, and South America. She has written six cookbooks, including *Trattoria Cooking*, which *The New York Times* called one of the 10 best cookbooks published in 1992. Her upscale restaurant in Sacramento—called Biba—attracts diners from as close by as the California Capitol and as far away as Mexico City and Rome, all eager to savor authentic Italian cuisine.

"My mother was a great cook," says Caggiano, 62, as she reviews the day's menu: green lasagna with mushrooms, tortellini in broth, and pork loin braised in milk. "Her food was simple, straightforward, and loaded with aroma and taste. That's the way I cook at my restaurant."

Caggiano has won numerous honors, including California winemaker Robert Mondavi's 1996 Culinary Award of Excellence, yet she never attended culinary school. She has let her palate be her guide in re-creating her mother's home-cooked meals.

"The palate is a cook's most precious tool," says Caggiano, who moved to New York City and later Sacramento with her husband, Vincent, an American-born Italian. They met while he was attending medical school in Bologna.

"Besides looking at the color and consistency of a sauce I've prepared, I remember how it tasted when my mother made it," says Caggiano. "Then I know whether the sauce is right or not, because it either tastes like hers or it doesn't."

Constant requests from friends to reveal her taste-testing secrets prompted Caggiano to teach cooking in her home and, starting in 1973, at William Glen, an upscale kitchen and home store in Sacramento. For the next 15 years she was a guest instructor at cooking schools on the West Coast and at the popular De Gustibus in Manhattan.

In 1987, Caggiano opened Biba, a 6,000-square-foot restaurant and bar. "My husband and I couldn't find an Italian restaurant in town that served classic cuisine," she says, "so I decided to open my own."

Caggiano's early years as a restaurateur tested her conviction about cooking what she calls "uncontrived, clean, pure Italian food." American variations, more heavily spiced and rich with sauces and cheese, had no place on her menu. "A classic dish is like a piece of music," Caggiano says. "When you listen to Mozart, you're not going to add a few notes because you think they're nice and would fit into the sonata."

Caggiano spends one month a year in Italy scouting restaurants and testing dishes she can adapt to her restaurant and cookbooks. "True Italian cooking is the same," she says. "It's done one way only."

When her first chef suggested buying produce in bulk and precooking pastas and sauces, Caggiano was horrified. "All dishes are made to order. Almost all our pastas are handmade," she explains. After eight months of battling with her chef and some kitchen staffers, Caggiano fired them.

"Business was slow the first year," she says, "but once I changed the kitchen crew and we did things the way I wanted, things started to change."

Caggiano gently refuses customers' requests for a side dish of pasta with their entree. "We don't do it that way. Pasta is a first course with a different sauce," she says. "I don't want to hurt anyone's feelings, but I stick to my guns."

Her restaurant's reputation for traditional Italian dishes and a sophisticated yet relaxed atmosphere has attracted a loyal clientele, including San Francisco Mayor Willie Brown and California state Sen. John Burton, who says, "Biba makes you feel right at home."

Jack Loveall, president of the United Food and Commercial Workers of Northern California, based in Roseville, concurs: "Biba is the consummate restaurateur. She's kind and gracious, and you feel like you're eating at a very good friend's home. I've eaten all over the world, and I would rather go to Biba than anywhere."

Caggiano takes her success in stride. Her restaurant and cookbooks generate about $2.2 million annually. She's discussing a cooking show with the Public Broadcasting Service and is reviewing offers from William Morrow, publisher of her latest book, *Italy al Dente*, to write two more cookbooks.

Her primary focus remains unchanged: preparing authentic Italian dishes. Tomorrow it might be butternut squash gnocchi (Italian dumpling) with smoked mozzarella, salad of roasted red peppers, and yellow tomatoes or Sicilian cannoli.

Says Caggiano: "We're only as good as our last meal." NB

PHOTO: ©LINDA SUE SCOTT

Creating Italian cuisine *true to its homeland origins, Biba Caggiano has earned renown far beyond northern California as a restaurateur and an author of cookbooks.*

Carla Goodman is a free-lance writer in Sacramento, Calif.

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OF SPECIAL INTEREST

Editorial

Looking Before A Leap Into Ergonomics Rules

Effective methods for protecting workers from repetitive-stress problems "have been demonstrated in workplaces of all sizes across a broad range of industries," the U.S. Occupational Safety and Health Administration notes. "Many employers have developed effective ergonomics programs and common-sense solutions."

Those comments, ironically, appear in the introduction of OSHA's proposal for a vast new federal regulatory apparatus to impose and enforce standards on how workers do their jobs.

SOURCES: REPORTS FROM THE U.S. BUREAU OF LABOR STATISTICS

In a typical hodgepodge of fedspeak, the agency wants to require employers to establish programs to prevent "work-related musculoskeletal disorders," or WMSDs, in which OSHA includes carpal-tunnel syndrome and backaches.

The tenor of the proposed regulations is apparent from just one provision: An employer receiving a worker's complaint of WMSD symptoms would have to "make available prompt and effective medical management" that included referral to a health-care professional who could order the worker placed on limited duty with normal earnings.

OSHA claims that such mandates are justified because "the scientific basis for the relation between work and development of WMSDs and for addressing ergonomics problems in the workplace is well-established."

That is simply not the case.

Neither the scientific nor the medical communities agree on the basic causes of repetitive-stress injuries, much less on how to prevent them.

The National Coalition on Ergonomics, a business group that is challenging the OSHA proposal, says: "Any ergonomic regulation must be based on sound science. Such a foundation does not exist today. In fact, OSHA's proposed rule would make America's workplaces laboratories for costly ergonomic experiments while failing to offer the assurance of preventing even one injury."

A highly credible effort to address the issue scientifically is in the works. Congress has directed the National Academy of Sciences to conduct a study designed to provide a scientific foundation for decision making.

The results of that review are expected in 18 to 24 months. In the meantime, the problem of repetitive-stress injuries should be kept in perspective. Such conditions represent just 4 percent of reported workplace injuries and illnesses, and they are dropping even as the work force continues to grow. (See the chart.)

The 276,600 such conditions reported for 1997 arose from a total national work force of more than 130 million people.

The sharp decline from the peak year of 1994 has occurred without OSHA's battery of new regulations, a point the agency would do well to explore. The fact that the reason for the drop is not apparent further buttresses the case against imposing a so-called solution that would add massively to business costs.

The U.S. Chamber of Commerce, a member of the ergonomics coalition, noted that "compliance costs—both in time and money—would hurt all private companies but particularly devastate small businesses."

It is by no means a disservice to workers concerned about repetitive stress that the OSHA plan be deferred until the academy completes its work on the subject.

The principals—employers, employees, OSHA, and Congress—will then have the major ingredient now lacking, a rational basis for deciding whether there are truly effective steps to be taken on this important issue.

OSHA plans to make its regulations final in September. If it cannot accept the vital importance of awaiting the counsel of wiser heads in the form of the National Academy of Sciences panel, then Congress will have to protect the agency from itself by blocking further action on these standards pending results of the study. NB

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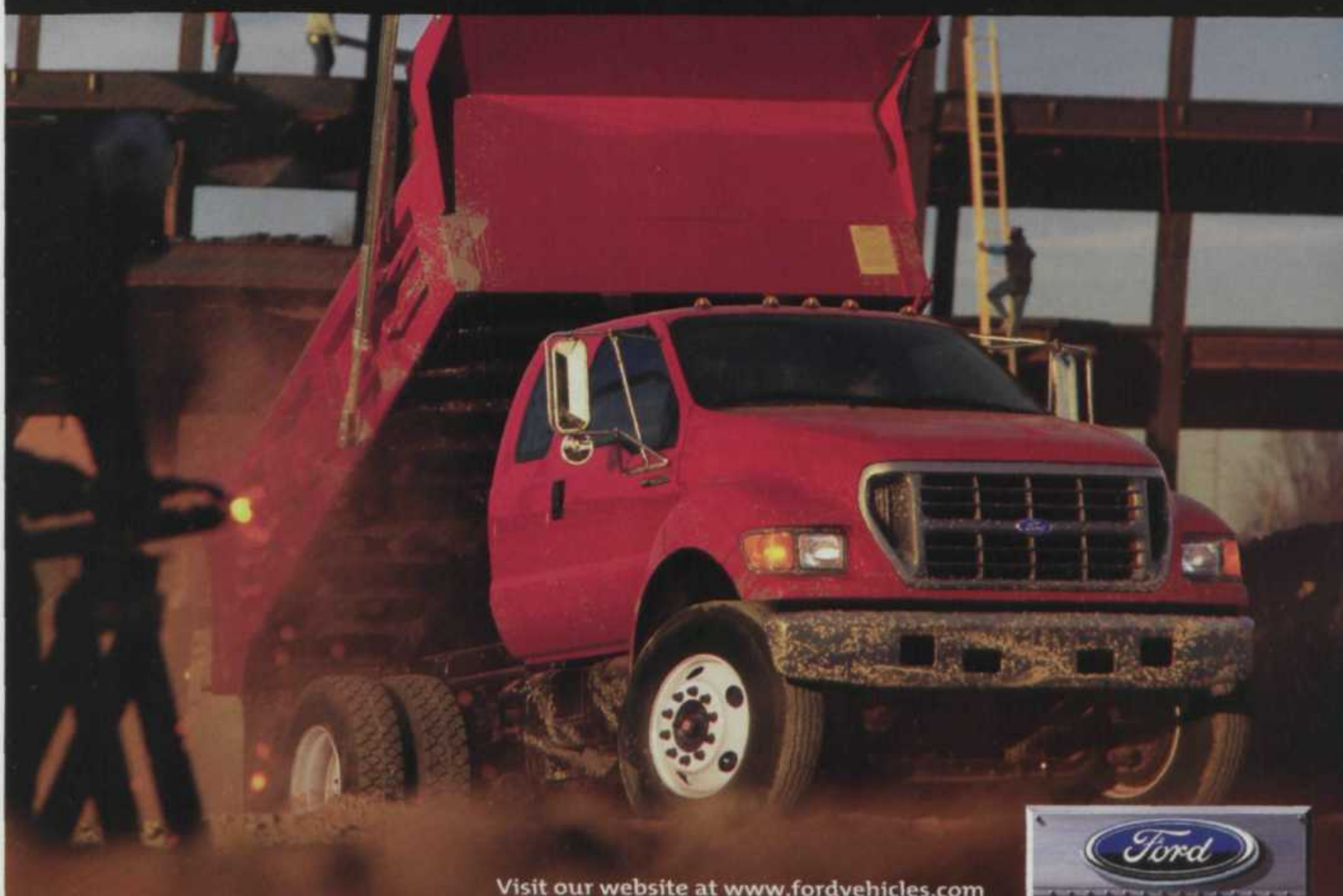


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THE BUSINESS ADVOCATE

SUPPLEMENT TO Nation's Business APRIL 1999

THE NEWSLETTER FOR U.S. CHAMBER MEMBERS

www.uschamber.org

United States Chamber of Commerce

Dear Chamber Members and Friends,

The revitalization of the U.S. Chamber of Commerce began in earnest in late 1997 with the arrival of new professional leadership and the enthusiastic support of an excellent staff and dedicated volunteer business leaders. This special report tells the story of that effort.

For nearly a century, the Chamber has represented the interests of American business ably and honorably. Yet, every great institution needs fresh energy, new ideas, and a renewed sense of mission to carry it forward. In 1998, we made great progress on many fronts to grow the Chamber's membership and revenues, to increase its effectiveness in lobbying Congress, and to raise its profile in Washington, across America, and around the world.

Now, with your support, we must:

- Stop the trial lawyers from exploiting the Y2K computer glitches by targeting companies for lawsuits.
- Knock down barriers to American goods and services abroad while stemming a rising tide of protectionism at home.
- Protect today's prosperity by cutting business taxes and blocking tax increases.
- Lead the nation to reforms that improve schools, prepare tomorrow's work force, protect Social Security and Medicare, and restore our national defense.
- Continue to improve the environment and workplace safety, but stop regulations that ship American competitiveness and jobs overseas.

Thanks to the support of many of you, the U.S. Chamber is the rallying place for American business once again. Our organization is strong and it's growing. And we've only just begun!

Sincerely,

Thomas J. Donohue

William G. Little

SPECIAL REPORT

REVITALIZING THE U.S. CHAMBER OF COMMERCE

President and CEO Thomas J. Donohue

1998-99 Chairman William G. Little

A New Era Begins At The Chamber

Founded in 1912, the U.S. Chamber of Commerce has served business effectively for nearly a century. But in the face of rapid economic change and an increasingly complex political environment, business today needs a stronger, more aggressive organization to advance its interests around the world and into the next century.

And so, under new executive leadership and with an expanded professional staff and an outstanding board of volunteer business leaders, the Chamber has embarked on a bold revitalization program designed to overhaul the organization's infrastructure, increase the vigor of its advocacy, and rally the American business community around a set of core issues that will shape its future.

Revitalization is well under way. Over the past 18 months the organization:

■ Tripled the size of its lobbying team and dramatically increased its tough, nonpartisan advocacy on behalf of business.

■ Reinvigorated its relationships with state and local chambers and with its grass-roots members.

■ Restored its membership-gathering and financial operations, attracting thousands of new large and small businesses to its ranks.

■ Greatly expanded its scope of work in the international, environmental, and labor policy arenas through the addition to its staff of nationally recognized experts.

The Chamber rededicated itself to its mission—to fight and win for business and free enterprise before governments at home and abroad, in the courts, and in the public opinion arena.

The business mission was advanced not only through stronger legislative advocacy on vital issues but also by assembling money, people, and programs around fundamental business issues:

■ Reforming the nation's costly legal system and challenging the trial lawyers who benefit from lawsuits.

■ Checking union leaders' efforts to increase government spending and regulations on business.

■ Opposing environmentalists' push for a global climate treaty and other regulatory burdens not based on sound science.

■ Attacking crime and illegal drug use.

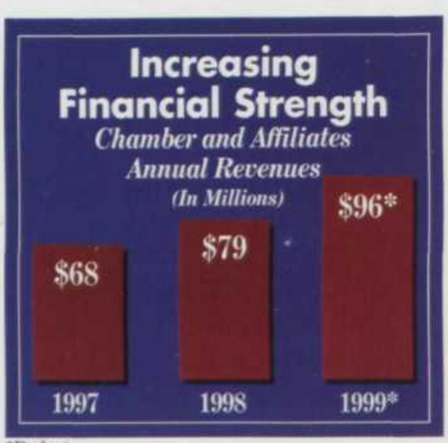
■ Advancing education and workforce issues as well as immigration to address America's shortage of workers.

■ Promoting international trade and fighting protectionism at home and abroad.

The Chamber's revitalization program was set in motion with the fall 1997 arrival of a new president and CEO, Thomas J. Donohue. His first year on the job was marked by a whirlwind of activity that substantially raised the public, policy, and political profile of the organization. Donohue met with dozens of national and international leaders as well as with hundreds of chamber and business executives across the country to win support for the revitalization effort and to make it clear that business would "stop apologizing for being the one thing in this country that really works."

The new Chamber president also raised the organization's profile in the media and on Capitol Hill, leading one authoritative congressional newsletter to observe that the "Chamber's climb has other groups looking over their shoulder."

The revitalization of America's largest, most important business federation is far from complete, but 1998 marked an impressive beginning that has caused friends and foes alike to take notice.



*Budget

Fighting For Business At Home And Abroad

The Chamber's fundamental mission is to win business battles in the legislative, regulatory, and legal arenas—ensuring passage of measures that help companies and blocking those that hurt.

That's why the Chamber tripled the size of its lobbying force in 1998 and expanded its policy and communications teams as well.

These additional resources, along with a more effective mobilization of grass-roots business activists—through its Grassroots Action Information Network (GAIN)—helped enact measures that:

- Secured record funding for transportation projects.
- Precluded the U.S. Environmental Protection Agency from funding "backdoor" administrative efforts to implement the flawed United Nations global climate treaty and its so-called environmental-justice policy.
- Required a study on job activities and stress-related injuries, part of an effort to delay the implementation of a federal ergonomics standard.
- Closed a loophole in a securities law to protect companies from lawsuits.
- Increased the number of visas for highly skilled immigrants to help ease the worker shortage.
- Extended a trade-law provision that helps open foreign markets to U.S. companies.
- Consolidated more than 60 federal worker-training programs into block grants for the states to set up their own programs with input from business.
- Renewed China's most-favored-nation trade status, now known as "normal trade relations" (NTR).
- Replenished the International Monetary Fund, which aids financially troubled nations whose economic health impacts businesses in the United States.
- Extended tax credits for research and experimentation expenses and for costs associated with hiring certain disadvantaged youths and welfare recipients.
- Overhauled the Internal Revenue Service to better protect taxpayers.
- Accelerated the timetable for allowing self-employed individuals to deduct 100 percent of their health-insurance premiums.
- Instituted a three-year moratorium on new taxes on transactions conducted over the Internet.
- Delayed the implementation of an immigration-law provision that could have led to the clogging of U.S. border-crossing checkpoints.
- Reformed two provisions in the Occupational Safety and Health Act to protect businesses.

PHOTO: T. MICHAEL KEZA

1998-99 U.S. Chamber Chairman William G. Little, left, talks with Los Angeles Mayor Richard Riordan before the Chamber's recent board meeting.

PHOTO: ©KEN TOUCHTON

Gen. Colin Powell, former chairman of the Joint Chiefs of Staff, right, and U.S. Chamber President and CEO Thomas J. Donohue form an alliance to help young people find summer jobs.

Blocking Attacks On Business

The Chamber also was instrumental in helping pro-business lawmakers defeat several measures that would have been detrimental to business, including an $800 billion tobacco-tax increase, legislation to raise the federal minimum wage, and a bill that

PHOTO: ©MICHAEL GEISSINGER

U.S. Chamber Executive Vice President Bruce Josten rallies business leaders at the Capitol in support of a highway bill.

PHOTO: T. MICHAEL KEZA

U.S. Chamber Senior Vice President Lonnie Taylor voices the Chamber's opposition to a tobacco-tax proposal at the Capitol, with Sens. Mitch McConnell, R-Ky., left, and Jeff Sessions, R-Ala., looking on.

would have burdened employers with new health-care mandates.

The Chamber's legislative efforts were complemented in 1998 by a reinvigorated political program. The Chamber hosted more than 100 sessions for business leaders to "meet and greet" pro-business candidates running for election to Congress.

The Chamber endorsed 291 candidates for election in 1998, and 85 percent of those candidates won on Election Day.

The organization also mounted a get-out-the-vote campaign to encourage employers and their employees to register and to vote.

Important adjuncts to those efforts included the Chamber's *How They Voted* publication, which rated members of Congress on the votes they took on business issues in 1997, and the business federation's annual Spirit of Enterprise Award, which recognized lawmakers who voted with the Chamber at least 70 percent of the time in the previous session of Congress.

Strengthening The Federation

All the lobbyists and policy experts in the world won't carry the day unless they are backed up by a vibrant federation of state and local chambers and industry associations as well as a strong network of grass-roots activists.

In 1998, the Chamber strengthened its ties to the 1,000 business associations and 3,000 state and local chambers of commerce that are members of its business federation and the foundation of its political strength.

It held a first-ever summit meeting of 150 state and major metropolitan chamber executives in Colorado Springs, Colo., to discuss ways to harness business's grass-roots power more effectively.

Donohue visited more than 130 cities, where he met with hundreds of business leaders. Chamber Chairman William G. Little bolstered those visits with his own travels to chambers and local business communities across the country.

PHOTO: LAURENCE L. LEVIN

Chamber lobbyist Sally Jefferson talks with House Transportation Committee Chairman Bud Shuster, R-Pa., about a major highway-funding bill.

To better represent the breadth and diversity of American business, the Chamber increased the size of its board of directors from 60 members to 104. The board now includes representatives nominated by state and large metropolitan chambers.

The organization continued to emphasize helping its small-business members through programs such as the Blue Chip Enterprise Initiative, which recognizes small firms that have overcome adversity and emerged stronger, and the ChamberPlan, offered jointly by the Chamber and Fidelity Investments and providing affordable retirement plans.

The Chamber formed new relation-

PHOTO: LAURENCE L. LEVIN

Chamber President and CEO Thomas J. Donohue and Senior Vice President Lonnie Taylor, seated second and third from the right, respectively, pose with the Chamber's expanded lobbying team following the first round of new hires.

ships with outside groups, such as America's Promise: The Alliance For Youth and the Welfare to Work Partnership, both of which are helping businesses to find workers, and the National Black Chamber of Commerce.

Communicating With Business

One of the key approaches a revitalized Chamber employed to influence events in Washington was to mobilize business outside the nation's capital.

Through nearly 300 letters to members of Congress, testimony delivered or submitted to congressional committees on 28 occasions, press briefings on Capitol Hill, and calls from its activist members to lawmakers, the Chamber effectively voiced the concerns of American business in 1998.

The Chamber relied on a host of media to communicate its message to its members and the public.

Through GAIN, the organization educated members on legislation and regulations of importance to business and, when needed, rallied their support or opposition to such measures.

The Chamber's site on the World Wide Web, *www.uschamber.org,* served as a source of valuable legislative and business news. And a new communications initiative, ChamberCast, provided live and archived video and audio of important speeches and events held at the Chamber during the year.

Donohue's weekly "Voice of Business" column and the Chamber's member newsletter, *The Business Advocate,* helped keep the public and Chamber members informed about the organization's positions, as did editorials and issue-related articles in *Nation's Business,* the Chamber's monthly magazine.

PHOTO: T. MICHAEL KEZA

U.S. Chamber President and CEO Thomas J. Donohue, left, meets with members of the House Western Caucus on Capitol Hill.

PHOTO: LAURENCE L. LEVIN

Rep. Heather Wilson, R-N.M., with Chamber lobbyist Doug Loon, was one of 291 congressional candidates endorsed for election in 1998 by the Chamber.

The Rallying Place For Business

The Chamber also played a prominent role in various business coalitions that worked to advance—or forestall—legislation on Capitol Hill. It helped lead, among other groups, coalitions that worked to preserve U.S. export markets by funding the International Monetary Fund, to repeal a proposal that would have caused massive traffic congestion at U.S. border crossings, and to stop burdensome workplace regulations.

Throughout the year, the Chamber hosted conferences at which the important public-policy issues of the day were discussed by business, political, and academic leaders.

And congressional leaders, members of the Clinton administration, and other political leaders continued to turn to the Chamber as a forum for the exchange of views on matters vital to the country and to business.

Clearly, the Chamber has become the rallying place for business and an essential stop for advocates of all viewpoints as they try to advance their ideas.

PHOTO: T. MICHAEL KEZA

Leslie Hortum, Chamber senior vice president for Federation Development, and Richard Loomis, director of the Office of Chamber Relations, discuss ways to strengthen the U.S. Chamber's relationship with local and state chambers.

Raising The Chamber's International Profile

More than 90 percent of the world's population and American business's potential customers live outside the United States. For that reason, a centerpiece of the Chamber's revitalization program is a substantial expansion of the organization's international staff and activities.

Heads of state from around the globe now look to the Chamber to provide international business leadership. The presidents of Colombia, Costa Rica, Mexico, Nicaragua, Romania, and South Korea, the prime minister of Singapore, and the Brazilian finance minister addressed the business federation in 1998.

PHOTO: T. MICHAEL KEZA

Federal Reserve Chairman Alan Greenspan, left, meets with Chamber President and CEO Donohue.

The Chamber's International Division also hosted seminars and briefings on doing business in various countries, bringing together U.S. business people and ministerial delegations from around the world.

In October, Chamber President and CEO Donohue visited China, Japan, Singapore, and Vietnam to urge those nations to implement economic, fiscal, and banking reforms to help them recover from the Asian financial crisis. Donohue emphasized the importance of Asian markets to the United States—and to U.S. jobs.

On Capitol Hill—in addition to the legislative victories on trade with China, funding for the International Monetary Fund, and renewal of the Generalized System of Preferences, which helps open foreign markets to U.S. exports—the Chamber raised awareness among lawmakers of the negative effects on U.S. firms of the embargo on Cuba and of the use of unilateral economic sanctions.

The Chamber also pressed the U.S. government to study more carefully the impact on U.S. businesses of the European Union's move to add eastern European countries to its economic bloc.

Li Lanqing, China's vice premier, right, speaks with U.S. Chamber President and CEO Thomas J. Donohue during the Chamber leader's October 1998 trip to Asia.

Chamber Affiliates

The Chamber advanced its pro-democracy, pro-free-enterprise goals around the world in 1998 through the Center for International Private Enterprise (CIPE).

An affiliate of the Chamber and the business participant in the federally funded National Endowment for Democracy, CIPE marked its 15th anniversary in 1998 by funding 65 projects in 28 countries—projects that help build a tradition of support for business in the developing world.

The Chamber Foundation

The National Chamber Foundation, the Chamber's public-policy research group, also advanced the interests of U.S. businesses in the global market, hosting the spring meeting of the World Economic Forum. The Geneva-based international foundation of business, government, academic, and media leaders meets to foster business opportunities and to address global economic, social, and political issues.

The Chamber foundation, which provides analysis, options, and strategic models for dealing with public-policy issues, also hosted conferences that looked at ways to reform Social Security and to address the problems in the health-care system. The organization also debated the potential U.S. national security implications of the United Nations climate treaty, examined the Asian financial crisis's effect on the U.S. economy, and studied the

PHOTO: T. MICHAEL KEZA

Colombian President Andres Pastrana, left, is greeted by Chamber board member Craig L. Fuller, right.

social, demographic, and technological challenges facing business in the 21st century.

The fight to protect free enterprise also was advanced by the Chamber's other affiliates.

Litigation Center

The National Chamber Litigation Center (NCLC), the Chamber's public-policy law firm, defended the interests of business in the courts.

In 1998, the NCLC participated as a plaintiff in six cases and filed friend-of-the-court briefs in more than 30 cases before federal courts.

Among its most important victories of the year, the NCLC persuaded a federal appeals court to delay implementation of an Occupational Safety and Health Administration program that would have penalized businesses that failed to comply "voluntarily" with OSHA regulations that were never approved by Congress.

PHOTO: ©KEN TOUCHTON

U.S. Chamber Executive Vice President and Chief Operating Officer Gregori Lebedev, center, leads a discussion among business leaders on the economy at a conference sponsored by the National Chamber Foundation.

Legal Reform Institute

In addition to using the justice system to protect the interests of business, the Chamber worked through its Institute for Legal Reform to ensure balance and fairness in the system.

PHOTO: LAURENCE L. LEVIN

U.S. Secretary of State Madeleine Albright and Treasury Secretary Robert E. Rubin urge Chamber members to support fast-track trade-negotiating authority for President Clinton.

The institute, established in April 1998, embarked on a long-term legislative and political battle against excessive and frivolous lawsuits. It held a conference in September to highlight the importance of business participation in state judicial elections, and it endorsed three candidates for election to the Alabama Supreme Court. In the fall, the legal institute hosted a national conference on the year 2000 computer problems, focusing on ways to limit the litigation impact on business caused by such problems.

Work-Force Center

The Center for Workforce Preparation expanded its efforts to help business prepare workers to obtain the knowledge, skills, and attitudes needed to compete and succeed in the global economy of the 21st century.

Of critical concern to the Chamber and the center—and particularly to U.S. employers—last year was the shortage of workers. The center produced a resource directory of work-force-development programs run by chambers of commerce and other organizations across the country.

In February, the center hosted a symposium on work-force preparation that featured as its keynote speaker retired Gen. Colin L. Powell, who is chairman of America's Promise—Alliance For Youth, and Govs. Tommy G. Thompson, R-Wis., and Frank Keating, R-Okla.

The revitalization of the U.S. Chamber of Commerce is not over. As the challenges facing American companies grow in number and complexity, business must have a powerful and flexible rallying organization pounding on the doors of government in Washington and around the world. The U.S. Chamber is the only organization with the depth of expertise and grass-roots strength that is able to meet that formidable challenge.

While much remains to be done, it can once again be said that when politicians, policy-makers, and powerful media gatekeepers want to know what business thinks and where business stands, they call the Chamber of Commerce of the United States.

PHOTO: ©KEN TOUCHTON

Chamber President and CEO Thomas J. Donohue, left, New Jersey Gov. Christine Todd Whitman, and Klaus Schwab, president of the World Economic Forum, were among those at a conference on global economic, social, and political issues.

Business To Rally In Washington For Summit On Legislative Agenda

Members of the U.S. Chamber of Commerce will rally in Washington June 6-9 for a "Nation's Business Summit" to communicate and advance the federation's pro-business agenda.

The summit will be held in the Chamber's headquarters and will kick off with a Sunday evening reception.

Special briefings on the top issues being considered by Congress will be held June 7. The following day, federation members will be encouraged to visit their lawmakers on Capitol Hill.

The final day of the summit—June 9—will include an address by congressional leaders on Capitol Hill and a meeting of the U.S. Chamber's board of directors. President Clinton has been invited to be the keynote speaker at a concluding lunch.

Also as part of the program, several small businesses will be recognized as the 1999 national honorees in the Blue Chip Enterprise Initiative.

Sponsored by MassMutual—The Blue Chip Co., the U.S. Chamber, and *Nation's Business*, the award program recognizes small companies that have overcome adversity.

The fee for participating in the summit is $295; space is limited.

For more information about the summit or to register to attend, call (202) 463-5580.

Meet Chamber Leaders

To garner more input from its members throughout the country, the U.S. Chamber will hold a series of one-day regional meetings this spring.

The meetings are set for April 8 in Dallas, April 22 in Chicago, and May 4 in Atlanta.

The agendas will allow business leaders to share information and strategies on important business issues, to discuss the issues shaping today's legislative and political landscapes, and to exchange ideas on existing and proposed Chamber programs and services.

Each meeting will feature remarks from William G. Little, the U.S. Chamber's 1998-99 chairman, Vice Chairman Will F. Nicholson Jr., and Chamber President and CEO Thomas J. Donohue. Polling firms and demographers will give presentations, and discussions will be held on topics such as formulating and implementing grass-roots strategies and dealing with international issues.

For more information about the meetings, visit the Chamber's site on the World Wide Web at *www.uschamber.org* or call (202) 463-5580.

Panel To Nominate Board Members

The committee that will nominate the officers of the U.S. Chamber of Commerce whose terms begin in 1999 has been selected by the Chamber's board of directors.

Committee members include Philip F. Anschutz, chairman and CEO, The Anschutz Corp., Denver; Michael R. Bloomberg, president, Bloomberg Financial Markets, New York City; A. William Dahlberg, chairman, president, and CEO, The Southern Co., Atlanta; Maura W. Donahue, vice president, DonahueFavret Contractors Inc., Mandeville, La.; and Craig L. Fuller, chairman, Global Board Services, Korn/Ferry International, Washington, D.C.

The panel also includes Carol A. Rae, president and CEO, Integrated Media & Marketing, LLC, Rapid City, S.D.; Gerald L. Shaheen, group president, Caterpillar Inc., Peoria, Ill.; David Shea, president and CEO, Shea Construction Inc., Spokane, Wash.; William R. Toller, chairman and CEO, TITAN Consultants Inc., Stamford, Conn.; and Steve Van Andel, chairman, Amway Corp., Ada, Mich.

The committee also will nominate directors for board seats that have become vacant. Nominees are voted on by the board.

U.S. Chamber members may submit their recommendations for candidates for directorships. Contact Kate Wagner at (202) 463-3154 to make recommendations. The deadline for recommendations is April 30.

Toll-Free Help For Members

If you have questions about your U.S. Chamber membership account, membership materials and publications, or member services, or if you want to join the Chamber, call the organization's toll-free number: 1-800-649-9719. If you're calling from Washington, D.C., or Maryland, call (202) 463-5330.

An automated attendant line will offer options from which you can choose to have your call directed.